In the Supreme Court of the United States

OCTOBER TERM, 1975

No. 75-1658

WESTWOOD CHEMICAL, INC.,

Petitioner,

v.

PPG INDUSTRIES, INC.

Respondent.

PETITION FOR A WRIT OF CERTIORARI
To the United States Court of Appeals
For the Sixth Circuit.

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CONSTITUTION OF THE

UNITED STATES

IN THE

Supreme Court of the United States

October Term, 1975

No. ....

WESTWOOD CHEMICAL, INC., et al

Petitioners

-vs-

PPG INDUSTRIES, INC.

Respondent

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Westwood Chemical, Inc., et al, pray that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Sixth Circuit entered in the above-entitled case on February 18, 1976.

OPINIONS BELOW

The opinion and order of the United States Court of Appeals for the Sixth Circuit, as yet unreported, are set forth as Appendix A.[1] The opinion of the United States District Court for the Northern District of Ohio is set forth in Appendix B. The order of the District Court is in Appendix C.

JURISDICTION

The Final Judgment of the United States Court of Appeals for the Sixth Circuit was dated and entered February 18, 1976. The jurisdiction of this Court is invoked under 28 U.S.C. Section 1254(1).

[1] References to appendices A, B, C or D herein are by page number followed by the letter "a".

QUESTIONS PRESENTED FOR REVIEW

(1) Where a freely cancellable patent license agreement has as its consideration a license under two (2) United States and ten (10) foreign patents together with rights to grant its customers similar immunity from suit, do the provisions of the federal patent and antitrust laws so override the law of contract that such license agreement is abrogated upon the mere filing of a declaratory judgment action by the licensee to contest the validity of only the United States patents, particularly when the licensee deliberately refuses to exercise its right of cancellation in order to retain freedom from possible injunction, immunity of its customers under foreign patents permitting them to make, use and sell in Canada and other foreign countries patented articles that utilize patented fiber glass sold by licensee, etc.,

it being recognized that the foreign patents have never been challenged and maintain their validity regardless of the validity of the United States patents?

(2) Where a patent license agreement unlike the agreement involved in Lear v. Adkins,[2] 395 U.S. 653 (1968), gives the

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2 In holding that the license agreement in Lear v. Adkins was cancellable without qualification (Appendix A at 14a) the United States Court of Appeals for the Sixth Circuit is completely wrong as was the United States Court of Appeals for the Third Circuit in American Sterilizer Co. v. Sybron Corp. and Castle Co., 526 F.2d 542. As is clear from page 14 of the Sixth Circuit's opinion, both of these United States Courts of Appeals failed to read beyond page 325 and through pages 334-336 of the California Court's opinion in Adkins v. Lear, 455 P.2d 321. They completely overlooked the fact that the California court had held at page 336 as per paragraph number 17 of the syllabus that

"Construction of the licensing agree-

licensee the unequivocal right to cancel the agreement and be in the same position as though the agreement had not been entered into, is the licensee who deliberately refrains from cancelling the agreement in order to retain its license and obtain remaining advantages (including immunity from suit for itself and its

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ment as a whole showed an intention that a licensee would discontinue the manufacture of products using licensor's invention if it terminated the agreement under the paragraph authorizing licensee to cancel on 90 days written notice".

Lear, Incorporated, the licensee, gave written notice of cancellation April 3, 1959 (Adkins v. Lear, 435 P.2d at 330) but this was held not to be effective because Lear, Incorporated stayed in business and continued to manufacture as though no license had even been had. The opinions of both of the United States Courts of Appeals are therefore an unwarranted extension of this Court's holding in Lear v. Adkins, 395 U.S. 653 (1969). The Third and Sixth Circuits' interpretation grants to any licensee a right to have it both ways, and takes away every reason why a patentee should grant any licenses.

customers under many foreign patents, freedom from injunction, etc.) freed from its obligation to pay royalties either where only some of the claims of one of the United States patents had been found by a district court in another case to be invalid, or upon filing by licensee of an action for a declaration of the invalidity of the United States patents?

CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED

The case involves the provisions of the Constitution of the United States and Federal Patent and Antitrust Laws of the United States. The constitutional provision is Article 1, Section 8, Clause 8. The statutory provision is 35 U.S.C. Section 261. The constitutional provision reads as follows:

"To promote the progress of science

> and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries".

The pertinent portion of 35 U.S.C. Section 261 reads:

> "Subject to the provisions of this title....patents shall have the attributes of personal property. Applications for patent, patents, or any interest therein shall be assignable by an instrument in writing...."

* * *

STATEMENT OF THE CASE

1. On April 17, 1956, United States Letters Patent No. 2,742,378 (hereinafter referred to as "'378 patent") issued to Theodore A. TeGrotenhuis containing twenty-eight (28) claims. Later, on July 1, 1958, United States Letters Patent No. 2,841,566 (hereinafter referred to as "'566 patent") issued to Theodore A. TeGrotenhuis containing fourteen (14) claims.

2. On January 1, 1972, Westwood Chemical, Inc. (hereinafter referred to as "Westwood") and PPG Industries, Inc. (hereinafter referred to as "PPG") entered into a license agreement (hereinafter this license agreement shall be referred to as "Agreement"). This Agreement covers the above two United States patents and ten foreign patents. (Appendix D at 38a).

3. The pertinent provisions of the Agreement are as follows:

a. Part of the consideration for

which PPG agreed to pay royalties to Westwood involved "obtaining immunity from suit for infringement of any foreign patents...for [PPG] and its customers for practice of any of the inventions covered in said foreign patents wherein primary products are used..." (Emphasis added.) (Appendix D at 39a and 44a).

b. Under Section 3, Westwood granted to PPG a non-exclusive, non-transferrable license to make, use and sell the licensed products throughout the United States, its territories and possessions. Westwood also granted to PPG a non-exclusive, royalty-free immunity from suit for infringement under the foreign patents for the use and sale in countries outside of the United States of licensed products manufactured in the United States, its territories and possessions pursuant to the Agreement and on which royalty is payable or paid to Westwood. PPG was also granted the

right to extend such immunity to its customers. (Appendix D at 44a).

c. Under Subsection 6.1, the Agreement shall terminate with the expiration of the last to expire of the licensed American and foreign patents, unless otherwise terminated under the Agreement. (Appendix D at 47a).

d. Under Subsection 6.2 of the Agreement, PPG had the right to terminate the Agreement by giving Westwood thirty (30) days notice in writing of its intentions to do so. (Appendix D at 47a).

e. Under Subsection 6.4 of the Agreement, PPG could give Westwood written notice that a third party had infringed a claim or claims of the licensed patents, and request that suit be brought under a licensed patent against such infringer based on such infringement. Upon failure of Westwood to do so within six (6) months after such a request, PPG would

be relieved of the payment of royalties in regard to the alleged infringed licensed patent until Westwood did bring suit or obtained a discontinuance of such infringement or obtained a license from said alleged infringer. (Appendix D at 48a).

f. Under Subsection 6.7 of the Agreement, in the event the Agreement was terminated, all rights and obligations of the parties therein shall cease and the original rights of prosecution and defense of infringement suits would be restored. (Appendix D at 50a).

4. On March 23, 1962, PPG sent out trade notices informing various members of the trade that PPG had obtained a license from Westwood under the '378 and '566 patents and extending immunity from infringement suits to the customers of PPG under the licensed United States and foreign patents.

5. Pursuant to Section 6.4 of the Agreement, PPG sent a letter dated March 26, 1962, to Westwood requesting that infringement suits be instituted against various infringers. Thereafter, patent infringement suits were brought by Westwood against several companies alleged to have infringed patents '378 and/or '566 including Owens-Corning Fiberglas Corporation (hereinafter referred to as "OCF"), Ferro Corporation, Certain Teed Corporation and Johns-Manville Corporation. The parties stipulated the OCF suit would control as to the others.

6. After institution of these infringement suits but before the decisions were handed down thereon, the Supreme Court of the United States rendered its decision in Lear v. Adkins, 395 U.S. 653 (1969) (hereinafter referred to as "Lear").

7. PPG actively assisted Westwood in a patent infringement litigation brought by

Westwood against OCF. (Appendix A at 12a).

8. On January 6, 1969, without any notice to Westwood,[3] PPG decided to withhold royalty payments for the last six (6) months of 1968. From July 1, 1968 to this date, no royalty payments have been paid by PPG to Westwood as required by the Agreement.

9. On July 30, 1970, the United States District Court for the Northern District of Ohio, in the case of Westwood Chemical, Inc. v. Owens-Corning Fiberglas Corp., 317 F.Supp. 201 (N.D. Ohio 1970), ruled that all the claims of

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[3] In fact, when Arland T. Stein, trial counsel of Westwood, telephoned PPG's chief patent counsel, Oscar Spencer, in late May or early June, 1969, to inquire about the non-payment of royalties for the last half of 1968, Mr. Spencer informed Mr. Stein, "that he would look into it and see what could be done", but Mr. Stein says he did not hear anything further. As a result, Westwood was never made aware of PPG's intention to suspend royalty payments or any possible reason for such action. (Appendix B at 24a).

the '378 and '566 patents were invalid[4] and therefore not infringed.

10. On December 8, 1970, Westwood instituted an arbitration proceeding before the American Arbitration Association, as authorized by Section 9 of the Agreement (see Appendix D at 51a), to force PPG to pay royalty payments due and owing under the Agreement.

11. On January 18, 1971, PPG filed a declaratory judgment action against Westwood to obtain relief from the payment of further royalties to Westwood under a license Agreement allegedly involving invalid patents. Westwood

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[4] This holding came despite the fact that all of the claims were not at issue in that litigation. Westwood Chemical, Inc. v. Owens-Corning Fiberglas Corp., 445 F.2d 911, 918 (6th Cir. 1971). The effect of the Sixth Circuit's decision affirming in part and reversing in part the trial court was to leave untested the validity of certain claims of both the '378 and '566 patents which were the subject matter of the license agreement.

counterclaimed for the enforcement of the Agreement and a judgment requiring PPG to pay royalties under the Agreement. At the time of the filing of the lawsuit, the Agreement was still considered to be alive by both parties. [5]

12. The United States Court of Appeals for the Sixth Circuit (hereinafter referred to as "Sixth Circuit") affirmed the lower court's decision insofar as it had held the claims of the patents at issue in that litigation to be invalid and not infringed but modified the lower court's decision of invalidity as to those claims of the patent not in issue in that

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5 The testimony of Mr. Johnston, patent counsel for PPG, affirms PPG's intention to preserve the Agreement notwithstanding the instant litigation. He was asked, "In other words, Mr. Johnston, if I understand you, if in fact the Owens-Corning Fiberglas litigation had terminated favorably to Westwood, you still wanted to reserve your rights under the licensing Agreement?" Mr. Johnston answered, "Yes, we still have that license Agreement alive". (Appendix B at 26a and 35a).

litigation. As a consequence of this decision, the validity of many claims of both the '378 and '566 patents were left uncontested.

13. Further litigation was had under the unlitigated claims of the '378 and '566 patents. See Westwood Chemical, Inc. v. Johns-Manville Corporation, 477 F.2d 1160 (6th Cir. 1973); Westwood Chemical, Inc. v. Molded Fiber Glass Body Co., 380 F.Supp. 517 (N.D. Ohio 1973), affirmed, 498 F.2d 1115 (6th Cir. 1974).

14. On March 17, 1975, Judge William K. Thomas of the United States District Court for the Northern District of Ohio rendered a decision in the instant matter. (Appendix B at 17a et seq). The trial court held the '378 and '566 patents invalid. With respect to the counterclaim of Westwood, the court ruled that PPG was obligated to pay Westwood royalties from July 1, 1968, when PPG stopped paying royalties, to January 18, 1971, when the instant

action was filed. The trial court further held that PPG was under no obligation to pay royalties after January 18, 1971. The findings of fact of the trial court, which were not challenged in the Sixth Circuit and as such, PPG is bound by the findings, include the following:

a. At the time when PPG filed the instant lawsuit, the Agreement was still in effect. (Appendix B at 27a).

b. The Agreement between PPG and Westwood covered PPG's use of two (2) American patents (the '378 and '566 patents) as well as ten (10) foreign patents. (Appendix B at 20a). PPG and its customers have received immunity from infringement, stressed in the trade notices which have never been withdrawn or cancelled. (Appendix B at 35a).

c. "The record requires a conclusion, now made, that it was PPG's choice not to terminate the Agreement, as it unilaterally was

free to do so under Section 6.2". (Appendix B at 26a and 35a).

15. On April 28, 1975, PPG filed a notice of appeal to the Sixth Circuit from the final judgment of the trial court.

16. On May 4, 1975, Westwood filed a notice of a cross appeal to the Sixth Circuit from the judgment of the trial court holding that the license Agreement was declared unenforceable from January 18, 1971, and from that portion of the judgment declaring invalid without any evidence, all of the many un-adjudicated claims of the '378 and '566 patents.

17. Prior to the oral argument before the Sixth Circuit, only in order to fix a date to end litigation, Westwood accepted the judgment of the trial court that all the claims of the patents were now invalid. Further, for the purposes of terminating the instant litigation, Westwood agreed to accept the eviction date of all the claims of the '378 and '566 patents as

a cut-off date for PPG's obligation to make royalty payments under the Agreement.

18. On February 18, 1976, the Sixth Circuit entered and filed its decision and order affirming the trial court, but for different reasons, that PPG was obligated to pay royalties to Westwood from July 1, 1968 to January 18, 1971, and further held that no royalties were due and owing to Westwood by PPG after January 18, 1971. With respect to the cross appeal of Westwood, the Sixth Circuit affirmed the trial court by holding that royalty payments were not due and owing to Westwood by PPG after January 18, 1971. In reaching these decisions, the Sixth Circuit, among other things, held that PPG was not required to terminate the Agreement under the holding in Lear. The decision of the Sixth Circuit further did not consider the issue that the Agreement was still viable notwithstanding the invalidity of all the claims

of the two (2) American patents, in light of the viability of the ten (10) foreign patents.

19. A petition for writ of certiorari to the Sixth Circuit is being sought by Westwood in order for this Court to consider two basic issues. One, whether PPG had the obligation to terminate the Agreement in order to relieve itself of royalty payments under the Agreement. Two, whether the Agreement is still viable in light of the benefits deliberately retained by PPG under the ten (10) foreign patents covered by the Agreement.

* * *

THE JURISDICTIONAL BASES IN THE FEDERAL DISTRICT COURT

Jurisdiction in the District Court was predicated upon diversity of citizenship, because PPG is a Pennsylvania corporation and Westwood is an Ohio corporation, and the amount in controversy is in excess of Ten Thousand Dollars ($10,000.00). It was also based upon Title 28 U.S.C., Sections 2201, 2202, 1331, 1332, 1337 and 1338(a) and Sections 2 and 15 of Title 15 U.S.C. Venue was based on 28 U.S.C., Section 1391.

REASONS FOR GRANTING THE WRIT

Fundamentally, the traditional conflict between contract and patent law, as well as the constitutional grant to promote the arts and sciences have been the subject of considerable confusion in the lower courts since the pronouncement of this Court in Lear v. Adkins,

395 U.S. 653 (1969) and is worthy of further review by this Court to clarify the state of the law in the following two respects:

ONE: It is urged that the position that has thus far been adopted in at least the Sixth Circuit and the Third Circuit as permitting a challenge to patent validity by a licensee without requiring cancellation of the license contract, in all cases, goes far beyond the policy considerations of this Court in the Lear decision and must be further clarified. This Court rightly recognized in Lear that licensees must be unmuzzled to challenge patent validity of the claims which are the subject matter of the license to place in the public domain that which belongs there. Indeed, this Court noted that frequently such licensee might well be the only party with sufficient interest to challenge patent validity. However, the decision in Lear should

not be divorced from its facts. There was no meaningful cancellation clause in Lear even though the licensee did attempt to cancel. The posture of the case when it came to this Court was that such purported cancellation attempts were totally ineffectual. The nature of the contract in Lear would have forced the licensee out of production which is too high a price to unmuzzle a licensee. However, where the parties enter into a license agreement which contains an unrestricted thirty day cancellation clause surely such unrestricted cancellation clause is the best way to totally unmuzzle a licensee truly intent on challenging patent validity. There is absolutely no public policy consideration, such as that pronounced in Lear, to justify overriding long standing contract concepts in the face of such an unrestricted cancellation clause. To hold that a licensee can retain the many advantages that the contract

presents, which motivated the parties to contract in the first place, while suspending royalty payments to challenge validity, would make a mockery of the long standing encouragement of inventors to seek to license their intellectual property. Thus, where a licensee would otherwise be effectively muzzled by a ruinous cancellation clause, such is that present in Lear, the need to place in the public domain that which belongs there, is a public policy consideration which rightly should override contract considerations. But why not hold that a licensee, who can easily and effectively completely cut the bonds of the license by exercising an unrestricted thirty day cancellation clause should be required so to do?

TWO: Does Lear v. Adkins necessarily

permit a patent licensee to avoid royalty payments at the time of its Lear challenge, by way of a declaratory judgment to determine invalidity, when unchallenged foreign rights, under foreign patents, are indivisibly a part of the royalty consideration? Admittedly, when only American patent rights are the subject matter of a license agreement, this Court in Lear will unmuzzle such licensee to an extent of permitting the licensee to suspend royalty payments at the same time that such licensee chooses to challenge validity of all of the patent claims which are the subject matter of the license. The public policy behind such unmuzzling so as to place in the public domain that which belongs there by all who would have an interest in so doing was clearly expressed by this Court in Lear. However, where valuable foreign patents, whose validity to this day has never been challenged,

are indivisibly bound up with American rights under American patents which in combination form the single royalty consideration presents a different issue. To permit the licensee to retain the advantages of the foreign patent license without cancelling the contract, and at the same time to be able to suspend royalty payments to challenge the American patent claims, is to make a shambles of all concepts of contract rights which goes far beyond the policy considerations which motivated the Lear decision. Especially is this so when the licensee can be completely unmuzzled by the simple expedient of exercising the contract cancellation clause and still continue production unlike the licensee in Lear. It is therefore urged upon this Court that the so-called Lear right to challenge validity should, at the very least, require a challenge of failure of consideration of the entire

consideration, including the foreign rights, and that Lear should not be construed to permit a challenge of merely the American patent claims when the royalty consideration is an indivisible combination of both American and foreign patent rights and the licensee is seeking not to cancel to retain these valuable foreign rights during the pendency of the challenge.

Clarification of both of these issues is of sufficient, great public concern to justify the request to this Honorable Court to grant certiorari to clarify the applicable scope of the Lear decision, as discussed further below.

* * *

1. THE POLICY CONSIDERATIONS IN LEAR TO UNMUZZLE A LICENSEE WHO IS TRAPPED BY A RESTRICTED CANCELLATION CLAUSE SO AS TO PLACE IN THE PUBLIC DOMAIN THAT WHICH BELONGS THERE HAS NO APPLICATION IN THE PRESENT CASE WHERE THE LICENSEE IS GIVEN AN UNRESTRICTED THIRTY DAY (30) CANCELLATION CLAUSE, IN WHICH A LICENSEE CAN CANCEL AND CONTINUE MANUFACTURING THE PATENTED PRODUCTS, THEREBY ENCOURAGING AN EARLY ADJUDICATION OF PATENT INVALIDITY DESPITE THE CANCELLED LICENSE AGREEMENT. IN A CASE SUCH AS THIS, NO PUBLIC POLICY CONSIDERATIONS EXIST, AS IN LEAR, TO COMPEL THE ABROGATION OF BASIC CONTRACT PRINCIPLES IN FAVOR OF THE FREE EXCHANGE OF NON-PATENTABLE INVENTIONS.

In modifying the law relating to patent license agreements, this Court in Lear wholly predicated its decision on the United States patent and antitrust laws. *A fortiori*, by applying Lear to the instant case, the same basis must necessarily be used to reach a decision.

The facts on which the Lear decision was based are entirely different from those involved here. The application of that decision to the case at bar is clearly wrong. PPG, the licensee herein, was not locked into a monopoly, as was the licensee in Lear. The license agreement involved in Lear contained two cancellation clauses, one of which, namely, paragraph 2(a), would seem to have permitted unequivocal cancellation by the licensee simply upon ninety (90) days notice. That clause was, however, construed by the California Supreme Court, Adkins v. Lear, Inc., 67 Cal.2d 882, 435 P.2d 321, 334-336 (1968), considering the contract as a whole, to permit cancellation of the agreement only if the licensee, completely ceased manufacture of the licensed articles. This is clearly contrary to the Sixth Circuit's finding, in this regard.[6]

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6 This pertinent portion of the Sixth Circuit's

Lear came to this Court involving an agreement that completely muzzled the licensee, preventing any contest of patent validity of the licensed patent. On April 18, 1959, even

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opinion reads:

> "The District Court relied heavily on the fact that PPG failed to terminate the license under §6.2 of the agreement. We are not persuaded that it is necessary for the licensee to repudiate the agreement in order to encourage an adjudication of invalidity. In Lear, the license agreement contained a provision which gave the licensee the unqualified right to terminate the license. Adkins v. Lear, Inc., 67 Cal.2d 882, 435 P.2d 321, 325 (1968). The license was not terminated even while the case was on appeal before the Supreme Court. Consequently, the Supreme Court's reference to "unmuzzling" in Lear does not depend upon the presence or absence of a termination clause. See American Sterilizer Co. v. Sybron Corp., F.2d (3rd Cir. 1975); Meditronic, Inc. v. American Optical Co., 327 F.Supp. 1327, 1331 (D. Minn. 1971). (Appendix A at 14a).

before Adkins' patent issued, the licensee gave notice that it terminated the license agreement, under both paragraphs 2(a) and 6 (Adkins v. Lear, 435 P.2d at 330) but, that termination was held not to be effective because the licensee continued manufacturing the patented articles. For such licensee to cancel, it had to cease making its product, an untenable situation. In Lear, the licensee was therefore completely muzzled and this Court's proper relief was necessary if the licensee was to be permitted to get out of a monopoly that it thought was unwarranted.

In the instant case, however, unlike the licensee in Lear, PPG was granted the unqualified right to cancel upon thirty (30) days notice and be in the same position to continue manufacture and contest validity as though the Agreement had never been made. PPG was never locked into an improper monopoly as

was the licensee in Lear. PPG, however, as the court found, (Appendix B at 25a) chose to remain a licensee by refraining from exercising its right to cancel so that it could not be enjoined from manufacture and it could continue to provide itself and its customers immunity from suit under the ten foreign patents and be in the position of simply dismissing its complaint and paying up back royalties if the Sixth Circuit in the Owens-Corning Fiberglas case reversed the district court.

Both the Sixth Circuit in this case and the Third Circuit in American Sterilizer Company v. Sybron Corporation and Castle Company, 526 F.2d 542 (3rd Cir. 1975), have held that the licensee need not cancel its license, permitting the licensee to have it both ways. It is believed that this Court never intended its opinion in Lear to be

amplified and extended to include contracts which can be freely cancelled as in the present case. If Lear, Incorporated, the licensee, had been able to cancel and still manufacture, its 1959 notice of cancellation would have been effective and the Lear case would never have come before this Court. There is no reason to extend that doctrine to a case such as this where the licensee is and always was unmuzzled.

2. IT IS INCONSISTENT WITH THE POLICY OF LEAR v. ADKINS TO PERMIT A PATENT LICENSEE TO AVOID ROYALTY PAYMENTS AT THE TIME OF ITS LEAR CHALLENGE, BY WAY OF A DECLARATORY JUDGMENT TO DETERMINE THE INVALIDITY OF TWO AMERICAN PATENTS, WHEN UNCHALLENGED FOREIGN RIGHTS, UNDER TEN FOREIGN PATENTS, ARE INDIVISIBLY A PART OF THE ROYALTY CONSIDERATION.

Despite the existence of patents in this action, a primary question of legal significance involves the law of contract. If only part of

the consideration for the Agreement, fails, is the contract unenforceable because of antitrust and patent laws, as the Sixth Circuit held after misinterpreting Lear v. Adkins, 395 U.S. 653?

The Agreement between PPG and Westwood provided that PPG shall have the right to make, use and sell goods produced through the use of any one or more of two (2) American and ten (10) foreign patents as consideration for a royalty payment. See Appendix D pages 38a, 39a and 44a. This action was instituted by PPG to contest the validity of the two American patents. At no time, however, was the validity of the ten foreign patents placed in question. Consequently, the invalidation of the two American patents left a license agreement still supported by sufficient consideration vis-a-vis the ten foreign patents.

The Sixth Circuit, however, determined that when the present suit challenging the validity of two of the twelve patents covered by the Agreement was filed, PPG conformed to the policy of Lear to encourage an early adjudication of patent validity. The failure by the Sixth Circuit to consider the importance of the foreign patents in this Agreement constitutes an error in the interpretation of the scope of the Lear doctrine. The petitioner respectfully submits that under the circumstances of the present case this Court did not intend that Lear be applied to abrogate the law of contract simply because the agreement involved patents.

Lear's policy to encourage the early adjudication of patent invalidity must be viewed within the confines of Lear's factual setting. Lear allowed the licensee to be relieved of its duty to pay royalties where such

licensee was challenging the validity of a patent which constituted the total consideration of the Agreement. 395 U.S. at 656. Because the sole consideration for the contract was made up of a patent whose validity was in serious doubt, an inherent conflict between patent and contract law arose and was so noted by this Court. If the parties were bound by their contract, "the strong federal policy favoring free competition in ideas which do not merit patent protection" would be frustrated. Alternatively, if the licensee's validity challenge was permitted, thereby abrogating the contract if successful, the protection of the patent monopoly would be frustrated. See 395 U.S. at 664. The Lear decision represents a clear choice of the latter alternative by this Court. However, it should be noted that the abrogation of the contract was merely incidental to the Lear

decision, in that nothing remained of the license agreement once the patent was invalidated.

In this action, however, the continued validity and enforceability of the foreign patents in this Agreement, even with the adjudication of invalidity of the two American patents, precludes any conflict between patent and contract law as there was in Lear. The policy of free competition in ideas not worthy of patent protection is served by allowing PPG to file suit to invalidate the American patents. On the other hand, the law of contract can and should also be honored. Under the Agreement, the foreign patents continue to provide sufficient consideration for the contract.[7] See Presbyterian Board

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[7] Pursuant to Subsection 10.3 of the Agreement, see Appendix D at 51a, Pennsylvania law governs its interpretation.

of Foreign Missions v. Smith, 209 Pa. 361, 58 A. 689 (1904); Thomas v. R.J. Reynolds Tobacco Co., 350 Pa. 262, 38 A.2d 61 (1944); Fritz Estate, 160 Pa. 156, 36 A. 642 (1894); Owens v. Wehrle, 14 Pa. Super. 536 (1900). Therefore, PPG, who even today continues to enjoy the benefits of certain of the ten valid foreign patents, should be required to honor its contractual liability to pay royalties under the Agreement. PPG could have cancelled the contract if it did not desire the additional consideration. The courts below misconstrued Lear to authorize the abrogation of the entire contract, despite the continued existence of sufficient consideration to support the Agreement. The petitioner respectfully requests that this Honorable Court grant certiorari to clarify the scope of the Lear doctrine and its effect on contract law.

CONCLUSION

Accordingly, for the foregoing reasons, the petitioner respectfully prays that a writ of certiorari issue in this case.

Respectfully submitted,

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APPENDIX A

OPINION OF THE

UNITED STATES COURT OF APPEALS

FOR THE SIXTH CIRCUIT

Nos. 75-1714-15

UNITED STATES COURT OF APPEALS

FOR THE SIXTH CIRCUIT

PPG INDUSTRIES, INC.,
Plaintiff-Appellant,

v.

WESTWOOD CHEMICAL, INC., ET AL.,
Defendants-Appellees.

PPG INDUSTRIES, INC.,
Plaintiff-Cross-Appellee,

v.

WESTWOOD CHEMICAL, INC., ET AL.,
Defendants-Cross-Appellants.

APPEAL from the United States District Court for the Northern District of Ohio.

Decided and Filed February 18, 1976.

Before PHILLIPS, Chief Judge, and PECK and MILLER, Circuit Judges.

PHILLIPS, Chief Judge. As of what date does the liability of a patent licensee for royalties under an invalid patent terminate pursuant to *Lear* v. *Atkins*, 395 U.S. 653 (1968)? This recurring question is presented on the present appeal under a factual situation that differs somewhat from those involved in other decisions of this court dealing with this issue.

Ordinarily, liability would terminate as of the date the licensee ceases the payment of royalties for the purpose of

prompting an early adjudication of the invalidity of the patent. However, under the facts and circumstances presented here, we hold that the liability of the licensee terminated as as of the date this suit was filed on January 18, 1971.

This is a declaratory judgment action to declare unenforceable a nonexclusive patent royalty agreement executed between appellant, PPG Industries, Inc. (hereinafter referred to as PPG) and appellee, Westwood Chemical, Inc. (hereinafter referred to as Westwood).

In case No. 75-1714, PPG appeals from the judgment of the District Court awarding Westwood back royalties from the time PPG ceased making payments until this action was filed, despite the court's finding of patent invalidity based on collateral estoppel. In case No. 75-1715, Westwood cross-appeals from the court's disallowance of royalties beyond the date PPG filed this action. We affirm the judgment of the District Court as to both issues.

I

On January 1, 1962, PPG and Westwood entered into the license agreement involved in this action. Under that agreement, Westwood granted to PPG a nonexclusive license under United States Patents No. 2,742,378 ('378) and No. 2,841,566 ('566), and several foreign patents. Its pertinent provisions are as follows:

> Whereas, PPG is interested in
>
> (1) Obtaining a non-exclusive license to make, use and sell articles and to practice processes claimed in one or more of said U. S. patents;
>
> (2) Obtaining for its customers immunity from suit for infringement of licensed patents as hereafter defined because of its customers' manufacture, use or sale of licensed products as claimed in the licensed patents in which are incorporated primary products on which the

royalty hereinafter provided for is payable by PPG to Westwood, and

(3) Obtaining immunity from suit for infringement of any foreign patents as hereinafter defined for itself and its customers for practice of any of the inventions covered in said foreign patents wherein primary products are used on which royalty as hereinafter provided for is payable by PPG to Westwood.

• • •

3.3 Westwood hereby grants to PPG the right to grant to customers of PPG a royalty-free immunity from suit for infringement under the licensed patents and foreign patents for the manufacture, use or sale of licensed products where such licensed products contain a product upon which a royalty as hereinafter provided for is payable by PPG to Westwood. Such immunity as provided for in this subsection, however, shall not extend to such customers' manufacture, use or sale of a composite article or method of making same covered by a claim or claims of an unexpired licensed patent if in such composite article there is incorporated additional fibers and/or inorganic solids on which royalty would be due Westwood from a licensee of Westwood if such additional fibers or inorganic solids had been acquired from such licensee of Westwood.

• • •

Section 6 — Termination

6.1 This agreement shall terminate with the expiration of the last to expire of the licensed and foreign patents; subject, however, to earlier termination as provided hereafter in this Section 6.

6.2 PPG shall have the right to terminate this agreement by giving Westwood thirty (30) days' notice in writing of its intentions so to do.

• • •

6.4 In the event that any time hereafter there shall not be pending a suit by Westwood against an infringer of the licensed patents based upon infringement on such scale that if licensed on the terms herein imposed the annual royalty return to Westwood would be at least two thousand dollars ($2,000) per year, then if any person or concern, without a license or right under the licensed patents, shall produce products coming within the definition of licensed products and if:

(1) PPG shall give Westwood written notice that such production has infringed a claim or claims of the licensed patents and

(2) PPG shall request that suit be brought under a licensed patent against such person, concern or third party because of such infringment and

(3) Westwood fails to bring such suit under some one or more of the licensed patents or to obtain discontinuance of such infringement or to license such infringer within six (6) months after receipt of such request, and

(4) Sales of said person or concern of such products is of such volume as to produce, if licensed, royalties of at least two thousand dollars ($2,000) per year,

then, in such case PPG shall be relieved of the payment of royalties, with respect only as to the licensed patents so alleged to be infringed until the day Westwood shall bring suit against an infringer or shall obtain discontinuance of said infringement or license said infringer; provided, however, that if during said six (6) months' period Westwood shall have entered into bona fide negotiations to license such infringer and within six (6) months after the expiration of said such six (6) months' period shall license such infringer, then PPG shall not be relieved from paying royalties under this subsection with respect to any period for which royalties shall be

paid on such material by such infringer except to the extent that the rate of royalties payable by PPG hereunder exceeds the rate of royalties paid by such infringer for such period.

6.5 Upon failure or inability of either party to perform any obligation under this agreement, the other party may give notice in writing to the party in default specifying the thing or matter requiring performance. Unless such performance be accomplished within sixty (60) days following the giving of such notice, the party seeking performance may give further written notice to the party in default terminating this agreement, in which event this agreement shall terminate on the date specified in such further notice. Waiver by either party of any single failure or inability or succession of failures or inabilities shall not deprive the other party of any right to terminate this agreement arising by reason of any subsequent failure or inability.

Pursuant to § 6.4 of the agreement, patent infringement suits were brought by Westwood in the Northern District of Ohio against companies alleged to infringe patents '378 and '566. In civil action C62-681, Westwood sued Ferro Corporation. In civil action C63-208, Molder Fiber Glass Body Co. was sued. In civil action No. C63-460, Westwood sued Johns-Manville Fiber Glass and Owens Fiber Glass Corp., and on September 18, 1963, Ferro Corporation was made an additional defendant. In 1967, Westwood sued Certain-Teed Products Corp. in civil action C67-775 and Dow Corning Corp. in civil action C67-787.

On April 15, 1968, Westwood, Owens Coring Fiberglass, Johns-Manville and Ferro stipulated that *Westwood Chemical, Inc.* v. *Owens Corning Fiberglas Corp.*, C63-460, as severed, would be the first case tried (hereinafter referred to as OCF); and that the final decision in that case as to the validity of '378 and '566 would be binding as to all parties. Later, Certain-Teed Products joined in this stipulation.

In mid-1968, PPG became concerned about the delays in bringing the OCF infringement suit to trial and so informed Westwood. Westwood advised that, due to extensive discovery, the OCF case would not come to trial until December 1968. The trial did not begin until June 1969. The evidence discloses that during this time PPG offered Westwood full cooperation in prosecuting the action against OCF, including the making of the PPG laboratory facilities available to Westwood and providing both business and technical information. Notwithstanding, on January 6, 1969, PPG withheld royalty payments for the last six months of 1968 and continued to withhold payments until the present action was filed on January 18, 1971. Although PPG withheld royalty payments, no notice was given to Westwood as to the reasons for nonpayment. When Westwood inquired about the unpaid royalties, PPG's chief patent counsel merely informed Westwood "that he would look into it and see what could be done."

Prior to the filing of the present action District Judge James C. Connell, on July 30, 1970, issued his findings of fact and conclusion of law in the OCF case, 317 F.Supp. 201 (N.D. Ohio 1970). He held both patents invalid and not infringed. On appeal, this court affirmed Judge Connell's ruling, 445 F.2d 911 (1971). Certiorari was denied by the Supreme Court. 405 U.S. 917 (1972). PPG filed the present action on July 18, 1971. Subsequent to the OCF decision of this court on August 24, 1971, PPG amended its complaint in the present case to assert invalidity of patents '378 and '566 under the doctrine of collateral estoppel announced in *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation, et al.*, 402 U.S. 313 (1971).

In the present action, the District Court found that the six year delay between the filing and trial of the OCF case was "largely due to the extensive and contested discovery;" that PPG failed to establish that Westwood caused the trial delay, and that Westwood would not continue to delay bringing the suits to trial so long as PPG was paying royalties. The court

found that pursuant to § 6.4 of the licensing agreement, Westwood brought suit within six months of the request; therefore, neither § 6.4 nor any other provision of the agreement authorized PPG to suspend payments for delay in prosecution of the infringement suit.

In seeking a declaratory judgment that the licensing agreement is unenforceable and a judgment against Westwood on its counterclaim for back royalties, PPG does not rely on any claim that Westwood breached the licensing agreement. Rather, PPG advances arguments based on federal patent law policies enunciated in *Lear* v. *Adkins, supra.* PPG argues that since patents '378 and '566 were adjudicated invalid in the OCF case, the doctrine of collateral estoppel announced in *Blonder-Tongue, supra,* applies. Accordingly, PPG insists that the overriding federal policy favoring free competition in ideas not meriting patent protection would be frustrated if this court should force back royalty payments under invalid patents. In short, PPG contends that *Lear* requires nothing more to terminate liability under the licensing agreement than that the licensee cease making royalty payments under a patent which subsequently is held to be invalid.

Westwood argues that the *Lear* policy is to promote an early adjudication of invalidity; consequently, mere cessation of payments is not enough. The licensee, Westwood contends, must either cease payment and immediately file suit or cease payment and notify the licensor that the patents are invalid; and that only the taking of some affirmative action in addition to cessation of payment will encourage an early adjudication of invalidity.

The District Judge held that the present action was controlled neither by *Lear* nor the several post-*Lear* decisions decided by this court; rather, that this case is one within the equity jurisdiction of federal courts. In balancing the equitable considerations between the parties, the court found that PPG had the unqualified right to terminate the license under § 6.2 of the agreement; however, PPG chose to perpetuate the license and continued to receive benefits thereunder. The court found that even after Judge Connell ruled in the OCF case that the patents were invalid, PPG still did not terminate the agreement. Accordingly, the court found that PPG was liable for the back royalties since it received the benefits of the agreement and never challenged validity until it filed this action on January 18, 1971.

II

We agree with the result reached by the District Judge, but not with all of his reasoning.

Under *Lear* a licensee has the right to cease paying royalties at any time for the purpose of prompting an early adjudication of the invalidity of a patent. In *Blonder-Tongue* v. *University Foundation,* 402 U.S. 313, 346 (1971), the Supreme Court said:

> *Lear* permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties.

We are of the opinion the District Judge erred in his interpretation of *Lear* and the decisions of this court in *Troxel Manufacturing Co.* v. *Schwinn Bicycle Co.,* 465 F.2d 1253 (1972) (hereinafter referred to as *Troxel I*); *Troxel Manufacturing Co.* v. *Schwinn Bicycle Co.,* 489 F.2d 968 (1973), *cert. denied,* 416 U.S. 939 (1974) (hereinafter referred to as *Troxel II*); and *Atlas Chemical Industries, Inc.* v. *Moraine,* 509 F.2d 1 (1974). The basic error of the District Court is reflected in this statement:

> The present case cannot be governed by this reference to *Lear* since the present case is not a *Lear* situation . . . [here] "the licensee became an incidental beneficiary to the invalidity established . . . by another party".

The two holdings of *Lear* are as follows: (1) a licensee is not estopped to interpose the invalidity of the licensed patent as a defense to an action brought by the licensor to enforce the license agreement, 395 U.S. at 656, 671; and (2) a licensee cannot be required to continue to pay royalties during the time he is challenging patent validity in the courts, 395 U.S. at 673. The policy underlying these holdings was to "'unmuzzle' licensees so that an early adjudication of invalidity could inure to the public interest." *Atlas Chemical,* 509 F.2d at 6; *Troxel I,* 465 F.2d at 1257; *see Lear,* 395 U.S. at 670, 673.

Our prior decisions recognize this policy. In *Troxel I,* the plaintiff-licensee was attempting to obtain a refund of all royalties ever paid on a patent which subsequently was held to be invalid. We held that such a result would thwart the policy announced in *Lear*:

> A rule that licensees can recover all royalties paid on a patent which later is held to be invalid would do far more than "unmuzzle" licensees. It would give the licensee the advantage of a "heads-I-win, tails-you-lose" option. *Lear* states that it is in the public interest to encourage an early adjudication of invalidity of patents. Application of the holding of the District Court could defeat early adjudication of invalidity and encourage tardy and marginal litigation.
>
> • • •
>
> *Rather than stimulating early litigation to test patent validity, such an interpretation of Lear would make it advantageous for a licensee to postpone litigation, enjoy the fruits of his licensing agreement, and sue for repayment of royalties near the end of the term of the patent.* When a licensed patent is about to expire and the threat of injunction no longer exists, a licensee would have little to lose in bringing an action to recover all the money he has paid in royalties on the ground of the invalidity of the patent. 465 F.2d at 1257 (Emphasis added.)

Although the agreement in *Troxel I* was voidable under *Lear,* we refused to hold it void *ab initio* entitling the licensee to recoup all royalties paid. We held in *Atlas Chemical* that *Troxel* "was not the type of suit authorized by" *Lear* since the full *refund* situation of *Troxel* would not promote an early adjudication of invalidity. 509 F.2d at 5.

In *Atlas Chemical,* the plaintiff-licensee brought suit to declare the patent invalid. The licensee placed the royalty payments in escrow during the period the action was pending. We held that since *Lear* allows a party freedom from royalty payments during a patent validity action, the fact that the payments were placed in escrow does not change the result. Escrow payments were held to be tantamount to nonpayment. We held the *Atlas Chemical* agreement voidable under *Lear;* in addition, we said that the royalty question in "[t]he instant case is the type of suit authorized" by *Lear* since the factual situation in *Atlas Chemical* encouraged an early adjudication of invalidity. 509 F.2d at 5.

The District Court held that *Lear* did not apply to the present suit, since PPG did not initially establish invalidity, rather, invalidity was litigated by another party which PPG relied on under the doctrine of collateral estoppel. The District Court stated:

> The present case cannot be governed by this reference to *Lear* since the present case is not a Lear situation. Rather, licensee PPG generally corresponds to the following description of licensee Troxel contained in *Atlas, supra.*
>
> > In the *Troxel* cases the licensee was doing nothing to contest the validity of the patent. The licensee continued to enjoy the fruits of the license. Only because of *Blonder-Tongue* . . . did the licensee become an incidental beneficiary to the invalidity established in the litigation initiated and prosecuted by another party in another circuit.

We do not agree that a distinction can be drawn between *Lear* and *Troxel* because of the application or non-application of the doctrine of collateral estoppel. The distinction between these two cases is that the *full refund* sought in *Troxel* would not promote an early adjudication of the invalidity of the patent. If a *full refund* were granted on all royalties paid from the date of the execution of the license agreement, the courts would be faced with a myriad of suits by licensees who have waited until the patent is about to expire in the hope that the patent would be declared invalid. Such a practice would encourage and reward the *late* adjudication of invalidity and defeat the purposes of *Lear.*

We agree with the District Court that, under *Lear,* PPG did not relieve itself of liability for royalties by ceasing payment under the facts of this case. It is reemphasized that under *Lear* and *Blonder-Tongue,* a licensee can terminate its liability for royalties under an invalid patent by ceasing payment for the purpose of prompting an early adjudication of the invalidity of the patent. The actions of PPG in the present case in ceasing the payment of royalties were not of the type to prompt an early adjudication of invalidity. It is for this reason, and not for the reasons stated by the District Judge, that the liability of PPG for royalties did not cease as of the date of termination of payments.

III

Relying on the above-quoted language of *Blonder-Tongue* and upon *Troxel I,* 465 F.2d at 1260, *Troxel II,* 489 F.2d at 973, and *Atlas Chemical,* 509 F.2d at 5, PPG contends that the licensee is required under *Lear* to do nothing more than cease making royalty payments to avoid further liability, if the patent thereafter is held to be invalid.

Something more than mere nonpayment is required to "*encourage* an early adjudication of invalidity." *Troxel I,* 465 F.2d at 1257. (Emphasis added.) In *Lear,* the licensee took the

additional affirmative step of notifying the licensor of invalidity:[1]

> In 1957, after Adkins' patent application had been rejected twice, Lear announced that it had searched the Patent Office's files and *had found a patent which it believed had fully anticipated Adkins' discovery. As a result, the company stated that it would no longer pay royalties* on the large number of gyroscopes it was producing at its plant in Grand Rapids, Michigan (the Michigan gyros). 395 U.S. at 659 (Emphasis added.)

In *Atlas Chemical,* the licensee took the additional affirmative action of filing suit. Accordingly, in both *Lear* and *Atlas Chemical* the action taken, in addition to nonpayment, was sufficient to encourage an early adjudication of the invalidity of the patent.

In the present action, PPG failed to give notice of any kind. When asked why the payments were being withheld, PPG's general counsel told Westwood that it would be "looked into." Not only did PPG fail to take any action that would encourage adjudication of invalidity, but PPG actively assisted Westwood in the OCF case in attempting to uphold validity.

The District Court found that counsel for the parties had a meeting on June 16, 1968, and that a memorandum was prepared as an accurate reflection of what occurred. This memo-

[1] Even though the cessation of payments by PPG was pre-*Lear,* PPG cannot argue that it had no duty to notify Westwood that the patents were invalid since the doctrine of licensee estoppel was significantly eroded at that time. The Supreme Court stated in Lear:

> Adkins suggests that any decision repudiating licensee estoppel as the general rule should not be retroactively applied to contracts concluded before such a decision is announced. *Given the extent to which the estoppel principle had been eroded by our prior decisions, we believe it clear that the patent owner — even before this decision — could not confidently rely upon the continuing vitality of the doctrine.* Nor can we perceive that our decision today is likely to undermine any existing legitimate business relationships. Moreover, the public's interest in the elimination of specious patents would be significantly prejudiced if the retroactive effect of today's decision were limited in any way. 395 U.S. at 674, n. 19. (Emphasis added.)

randum stated that "the main reason for the meeting was to bring PPG up to date on the status of the lawsuits." The District Court said:

> While the memorandum notes PPG's "concern about the delay in bringing the case to trial," it says nothing about any intention to cease royalty payments. Indeed, refutation of the purported cessession of royalty payments is provided by PPG's payment of royalties for the first half of 1968, after the meeting of June 26, 1968.

The District Court further found:

> An interoffice memorandum from Mr. Johnston to PPG officials dated July 10, 1969, states:
>
> > Near the end of December, 1968 I learned, upon making inquiry of the progress in the trial, that once again there was a delay and that the case would probably not come to trial until June 1969.
>
> The letter then states:
>
> > On January 6, 1969, I advised Legrand Skinner, accountant at Works 52, to hold up the royalty payment for the last six months of 1968.
>
> Mr. Johnston did not communicate this information to Westwood that PPG was "[holding] up the royalty payment for the last six months of 1968." Arland T. Stein, Pittsburgh trial counsel of Westwood called PPG chief patent counsel, Oscar Spencer, in late May or early June, 1969 to inquire about the nonpayment of royalties for the last half of 1968. Mr. Spencer informed Mr. Stein "that he would look into it and see what could be done," but Mr. Stein says he did not hear anything further.
>
> Mr. Johnston's interoffice letter of July 10, 1969 observes
>
> > I believe that the delay in bringing the suits to trial was unreasonable and that Westwood would have continued to delay bringing these suits to trial as long as PPG was paying a royalty. By such action, I believe that they have breached the Agreement. This is the basis for my holding up the royalty payments.
>
> As previously seen, six years elapsed between filing and trial of the OCF case. A review of the docket sheets and an examination of the file indicate that the delay appears to have been largely due to the extensive and contested discovery. In any event, the plaintiff has not established, as Mr. Johnston concluded, that Westwood caused the trial delay or that "Westwood would have continued to delay bringing these suits to trial as long as PPG was paying a royalty."

For the reasons stated above, we hold that the license agreement, although voidable under *Lear,* was enforceable for royalties accruing after the date PPG ceased making payments thereunder.

The District Court relied heavily on the fact that PPG failed to terminate the license under § 6.2 of the agreement. We are not persuaded that it is necessary for the licensee to repudiate the agreement in order to encourage an adjudication of invalidity. In *Lear,* the license agreement contained a provision which gave the licensee the unqualified right to terminate the license. *Adkins* v. *Lear, Inc.*, 67 Cal.2d 882, 435 P.2d 321, 325 (1968). The license was not terminated even while the case was on appeal before the Supreme Court. Consequently, the Supreme Court's reference to "unmuzzling" in *Lear* does not depend upon the presence or absence of a termination clause. *See American Sterilizer Co.* v. *Sybron Corp.*, — F.2d — (3d Cir. 1975); *Meditronic, Inc.* v. *American Optical Co.*, 327 F. Supp. 1327, 1331 (D. Minn. 1971).

IV

The sole remaining issue is the disposition of Westwood's claim that royalties are due beyond the date PPG filed suit —

January 18, 1971. Westwood insists that it is entitled to recover unpaid royalties until eviction of the patents occurred – August 24, 1971 (the date this court rendered its decision in the OCF case). Westwood's argument is premised on the ground that the facts in the present case do not represent a *Lear* situation; accordingly, the eviction doctrine of *Drackett Chem. Co.* v. *Chamberlain,* 63 F.2d 853 (6th Cir. 1933), reaffirmed in Troxel I and II, is controlling.

The District Court held that since *Lear* permits a licensee freedom from royalty payments while he is contesting validity, it would be inequitable to use a date later than the date of filing suit. Although in Part III above we held that a *Lear* situation was not presented at the time PPG merely ceased making payments, it is our opinion that PPG conformed to the *Lear* policy when the present suit was filed. By taking this additional affirmative action (*i.e.,* filing suit), PPG encouraged an early adjudication of invalidity. When eviction occurs *subsequent* to the filing of an action, the filing date must be the cut off date to conform to the policy of *Lear*:

> The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.
>
> It seems to us that such a requirement would be inconsistent with the aims of federal patent policy. Enforcing this contractual provision would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning. We can perceive no reason to encourage dilatory court tactics in this way. Moreover, the cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from attempting to prove patent invalidity in the courts. 395 U.S. at 673.

The date of the eviction of the patent, which was controlling in *Troxel,* is of no significance in the present case. Under

Lear, liability for royalties ordinarily is terminated on one of two dates (*i.e.,* if *before* eviction), whichever first occurs: (1) on the date the licensee ceases the payment of royalties for the purpose of prompting an early adjudication of invalidity; or (2) on the date the licensee files suit (or counter-claim) attacking the validity of the patent.[2] It is only when the licensee continues to pay royalties, and does not file suit until after the patent has been adjudged invalid, that the cut off date for liability is the date of the eviction of the patent.

The judgment of the District Court is affirmed. No costs are taxed. Each party will bear its own costs on this appeal.

[2] It is to be emphasized that the issue of collateral estoppel was not raised in the present case until after the filing of this action. This suit was filed January 18, 1971. Eviction of the patent occurred on August 24, 1971, the date this court released our opinion in the OFC case. PPG amended its complaint to assert the doctrine of collateral estoppel on August 24, 1971.

APPENDIX B

OPINION AND ORDER

UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF OHIO

EASTERN DIVISION

No. C 71-49

Memorandum and Order No. C 71-49

[Filed March 17, 1975]

THOMAS, J.

Plaintiff PPG Industries, Inc. (hereinafter referred to as PPG), a Pennsylvania corporation, filed this declaratory judgment action against Westwood Chemical, Inc. (hereinafter referred to as Westwood), an Ohio corporation, on January 18, 1971. PPG asks this court to declare unenforceable the nonexclusive royalty agreement of January 1, 1962, executed between Westwood and PPG. This agreement granted to PPG a nonexclusive license under United States Patents No. 2,742,378 and No. 2,841,566 owned by Westwood (hereinafter patents '378 and '566). PPG also seeks a declaration that each of said patents is "void *ab initio* and unenforceable."

Jurisdiction is asserted, and is found to exist, under 28 U.S.C. §1331(a), since a federal question arises under the patent laws of the United States. Jurisdiction is also asserted, and is found to exist, under 28 U.S.C. §1332, there being diversity of citizenship between the parties.

In an amendment to its complaint filed May 22, 1972, the plaintiff asserts that

> . . . defendant is estopped under the doctrine of collateral estoppel announced by the Supreme Court of the United States in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation et al.*, 402 U.S. 313 (1971, from asserting United States Letters Patent Nos. 2,742,378 and 2,841,566, or either of them, against plaintiff under the aforesaid license agreement or otherwise, since said

letters patent, as to all claims there involved, were held invalid and not infringed in *Westwood Chemical, Inc. v. Owens-Corning Fiberglas Corporation,* 317 F.Supp. 201 (N.D. Ohio, 1970); Mod. and Affd. 445 F.2d 911 (6 Cir., 1971); Cert.Den. 172 U.S.P.Q. 577 (1972); and in which final judgment was entered by this Court on March 3, 1972. The claims of the aforesaid patents which were held invalid and not infringed were the only claims asserted by Westwood Chemical, Inc. in said suit and are the same as those involved here. There is no material difference between said claims and the remaining claims of said patents. Westwood Chemical, Inc., the defendant here, had a full and fair opportunity procedurally, substantively and evidentially to pursue its claim in the aforesaid *Owens-Corning* case.

In its answer to the amended complaint defendant Westwood acknowledges the licensing agreement. It admits that it was the owner of the patents when the license was entered into but says that said "interests were assigned first back to sellers [Theodore A. TeGrotenhuis, Marjorie E. TeGrotenhuis and Marjorie E. TeGrotenhuis, Trustee] and thence to Eastwood Chemical, Inc." Upon motion of the plaintiff these individuals and Eastwood Chemical, Inc., have been added as party defendants to this action.

Defendant further admits in its answer that

> Plaintiff, PPG, paid royalties for the period prior to June 30, 1968, in the amount of $123,547.22 and that plaintiff has refused to make further payments . . . .

Defendant counterclaims for royalties which it says are due and owing from plaintiff since June 30, 1968.

In *Westwood Chemical, Inc. v. Molded Fiber Glass Body Co., 380 F.Supp.* 517 (N.D. Ohio 1973), 181 U.S.P.Q. 134, *aff'd* 498 F.2d 1115 (6 Cir. 1974), this court determined that there was an identity of questions between the '378 patent claims adjudicated in *Westwood Chemical, Inc. v. Owens-Corning Fiberglas Corp., supra* and the '378 patent claims in the Molded Fiber Glass Body case, unadjudicated in the Owens-Corning Fiberglas case; and that "the affirmative defense of collateral estoppel [under *Blonder-Tongue, supra*] is justified and will be applied." For the same reasons the doctrine of collateral estoppel applies in the instant case; and a declaration of invalidity of all claims of '378 and '566 will be entered here. Hence, the remaining issue in the first cause of action[1] is whether PPG is entitled to a declaration that the agreement is unenforceable; and in the counterclaim there is the reciprocal question of whether Westwood, et al are entitled to any royalty payments from plaintiff PPG after June 30, 1968.

At an oral hearing that began February 28, 1975, oral testimony was heard, exhibits were received, and arguments were presented. Several days before this hearing plaintiff's motion for summary judgment was overruled.

I.

After exchange of several drafts of a proposed agreement, Westwood Chemical, Inc. and Pittsburgh Plate Glass Co. executed the nonexclusive licensing agreement of January 1, 1962, in which Westwood granted to PPG licenses, rights, and immunities under

1. Since plaintiff has dismissed its second and third causes of action it is unnecessary to discuss them.

Westwood's patents '378 and '566, and 10 foreign patents identified in the agreement. PPG counsel C. A. Johnston, Jr.,[2] acknowledged receipt of the executed copy of the licensing agreement in a letter to Westwood's counsel dated March 26, 1972. He announced PPG's intent

> to advise our customers of the signing of the license and of the immunity from suit which they will obtain by virtue of the provisions of Section 3.3 of the agreement when they purchase from us glass fiber products coming within the scope of the royalty-bearing provisions of the agreement.

PPG thereafter sent notices to the trade, stating that it had obtained a license from Westwood Chemical, Inc. under the TeGrotenhuis patents. In part, the notice explained:

> This license permits PPG to make, use and sell roving, chopped strand, and chopped strand mat which has been coated with a vinyl or allyl silane for further fabrication and incorporation into glass fiber reinforced, resinous articles.

Mr. Johnston's letter of March 26 to Westwood's counsel reflects his understanding "that Mr. TeGrotenhuis has already sent letters to the principal glass fiber producers advising them of U. S. Patent 2,742 [illegible] and their infringement of this patent." He continued,

> This being the case, there is no need for PPG to request that suit be brought under a licensed patent as required by the provisions of Section 6.4 of the agreement in order for the conditions of this section to be in effect.

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2. In 1962 Mr. Johnston was patent group counsel for PPG (Glass Division and Fiber Glass Division). He is now patent counsel for the Fiber Glass Division.

Patent infringement suits were thereafter brought by Westwood against companies alleged to infringe patents '378 and '566. In civil action C62-681, Westwood sued Ferro Corporation. In civil action C63-208, Molded Fiber Glass Body Co. was sued. In civil action C63-460, filed June 10, 1963, Westwood sued Johns-Manville Fiber Glass and Owens Fiber Glass Corp., and on September 18, 1963, Ferro Corporation was added as an additional defendant. In 1967, Westwood Chemical, Inc. sued Certain-Teed Products Corp. (C67-774), Union Carbide Corp. (C67-775), and Dow Corning Corp. (C67-787).

In these several suits activity centered on Westwood's case against Johns-Manville, Owens Corning, and Ferro (C63-460). Ten pages of docket entries reflect numerous motions and hearings, mostly involving contested interrogatories, depositions, production of documents, and requests for admissions.

On April 15, 1968, Westwood, Owens Corning Fiberglas, Johns-Manville, and Ferro stipulated that *Westwood Chemical, Inc. v. Owens Corning Fiberglas Corp.*, C63-460, as severed, would be the first case tried; and that "the final decision (including appeals) as to the validity of . . . '378 and . . . '566 in . . . C63-460, as severed, shall be final and binding upon all parties hereto . . .." Later, Certain-Teed Products joined in this stipulation. On April 24, 1968, plaintiff's motion to consolidate all cases for trial was denied. The Owens Corning Fiberglas Corp. case was placed on the Fall, 1968 nonjury trial assignment.

A pretrial was held December 9, 1968, at which plaintiff indicated its intention to take certain depositions. Judge Connell retained the case for trial. On December 17, 1968, Judge Connell entered an order "Grant-

ing Atty. Webb's request [of December 16] for stay of trial date [because of plaintiff's scheduled depositions] and holding case from trial until January 27, 1969."

Thereafter, various depositions were taken and additional discovery completed. On March 17, 1969, plaintiff again moved to consolidate civil action C63-460 with other cases for trial, but Judge Green on April 25, 1969, denied the motion. He further ordered that C63-460 be placed at the head of the nonjury assignment for June, 1969.

Judge Connell conducted a further pretrial on June 2, 1969. On June 9, 1969, the trial began and lasted through July 2, 1969. Post-trial briefs were filed, with defendant Owens Corning Fiberglas filing the last brief on May 21, 1970.

On July 30, 1970, Judge Connell issued his findings of fact and conclusions of law, 317 F.Supp. 201 (N.D. Ohio 1970). He held both patents invalid and not infringed. On appeal to the Court of Appeals for the Sixth Circuit, Judge Connell's ruling in the *Owens Corning Fiberglas* case was subsequently affirmed, *supra* and certiorari was thereafter denied by the Supreme Court, *supra.*

II.

PPG's patent counsel Johnston met with Mr. TeGrotenhuis and plaintiff's counsel on June 26, 1968. Johnston testified that prior to this meeting he had informed Mr. TeGrotenhuis by telephone that because of the delay in bringing the infringement action to trial, Westwood was not living up to the spirit of the agreement and, therefore, PPG would cease paying royalties.

He testified further that this message was reiterated at the meeting. TeGrotenhuis, however, denied that there was any such conversation.

The meeting of June 26, 1968, was memorialized in a memorandum by Mr. Johnston, which memorandum was accepted by Mr. TeGrotenhuis and Mr. Weick, plaintiff's counsel, as an accurate reflection of what occurred. The memorandum indicates, as TeGrotenhuis and Weick insist, that "the main reason for the meeting was to bring PPG up to date on the status of the lawsuits." While the memorandum notes PPG's "concern about the delay in bringing the case to trial," it says nothing about any intention to cease royalty payments. Indeed, refutation of the purported cessation of royalty payments is provided by PPG's payment of royalties for the first half of 1968, after the meeting of June 26, 1968.

The memorandum does indicate that Mr. Johnston was told that "the OCF case will definitely come to trial in December of this year." As previously seen, it did not. Johnston testified that when he learned in late December that the trial has been postponed until June, 1969 he expressed the opinion to Mr. Young (a Pittsburgh lawyer assisting the representation of Westwood) that he was most upset that they had not bothered to advise him. He says that he told Mr. Young that this was without question a breach of the agreement, and that PPG should not be paying royalties. Mr. TeGrotenhuis wrote Mr. Johnston on January 6, 1969. Revealing no knowledge of PPG's intention to stop royalties, the letter began:

> Terry Young of the Blenco office informed me that you were concerned about the delay in this case.

Mr. TeGrotenhuis then explained the course of events that led to the postponement of the trial. He further informed Mr Johnston:

> The court ruled that the case would definitely be tried on June 9. Pretrial to be held June 2. This is the status of the case now.

Mr. Johnston did not answer the TeGrotenhuis letter.

An interoffice memorandum from Mr. Johnston to PPG officials dated July 10, 1969, states:

> Near the end of December, 1968 I learned, upon making inquiry of the progress in the trial, that once again there was a delay and that the case would probably not come to trial until June 1969.

The letter then states:

> On January 6, 1969, I advised Legrand Skinner, accountant at Works 52, to hold up the royalty payment for the last six months of 1968.

Mr. Johnston did not communicate this information to Westwood that PPG was "[holding] up the royalty payment for the last six months of 1968." Arland T. Stein, Pittsburgh trial counsel of Westwood called PPG chief patent counsel, Oscar Spencer, in late May or early June, 1969 to inquire about the nonpayment of royalties for the last half of 1968. Mr. Spencer informed Mr. Stein "that he would look into it and see what could be done," but Mr. Stein says he did not hear anything further.

Mr. Johnston's interoffice letter of July 10, 1969 observes

> I believe that the delay in bringing the suits to trial was unreasonable and that Westwood would have continued to delay bringing these suits to trial as long as PPG was paying a royalty. By such action, I believe that they have breached the Agreement. This is the basis for my holding up the royalty payments.

As previously seen, six years elapsed between filing and trial of the OCF case. A review of the docket sheets and an examination of the file indicate that the delay appears to have been largely due to the extensive and contested discovery. In any event, the plaintiff has not established, as Mr. Johnston concluded, that Westwood caused the trial delay or that "Westwood would have continued to delay bringing these suits to trial as long as PPG was paying a royalty." Mr. Johnston says he "believed that [Westwood] breached the Agreement," and he testified at trial that this conclusion is based on Section 6.4. Section 6.4 gave PPG the right to request Westwood to bring an action against "an infringer of the licensed patents" and if Westwood failed to bring such suit within six months after receipt of such request PPG was relieved from the payment of royalties "until the day Westwood shall bring suit against an infringer." The record shows that Westwood filed suits against all alleged infringers after requested by PPG. Neither Section 6.4 nor any other provision of the agreement authorized PPG to suspend royalty payments for delay in the prosecution of any infringement suit.

However, under Section 6.2 of the agreement, PPG did have "the right to terminate this agreement by giving Westwood thirty (30) days' notice in writing of its intention so to do." Thus without citing the further trial delay in the OCF case or any other ground, PPG could have terminated the agreement at the time it suspended payment of royalties. Termination of the agree-

ment under Section 6.2 would have cleanly cut off any further obligation to pay royalties to Westwood.

The record requires the conclusion, now made, that it was PPG's choice not to terminate the agreement, as it unilaterally was free to do under Section 6.2. Its decision was to pay no more royalties while attempting to charge Westwood with breach of contract. In taking this tack it saved the licensing agreement and sought, at the same time, to avoid the payment of any more royalties pursuant to that agreement. Mr. Johnston affirms PPG's intention to preserve the contract. He was asked:

> In other words, Mr. Johnston, if I understand you, if in fact the OCF litigation had terminated favorably to Westwood you still wanted to reserve your rights under the licensing agreement?

After defendant's objection was overruled, he answered, "Yes, we would still have that license agreement alive."

Plaintiff argues that Westwood could have resorted to Section 6.5 to give notice to PPG that its nonpayment of royalties was a failure of performance of an "obligation under this agreement," warranting termination of the agreement. However, Westwood's nonuse of this option demonstrates that Westwood treated the agreement as continuing, despite PPG's suspension of royalty payments. Further affirming the continuation of the agreement, Westwood on December 8, 1970, referred the dispute over nonpayment of royalties to the American Arbitration Association as authorized by the agreement in Section 9-*Arbitration*.

While PPG filed an answer in the arbitration proceedings, challenging the validity of patents '378 and '566, it decided that arbitration was not an appropriate

forum in which to adjudicate patent validity. PPG thereupon filed the present declaratory judgment action in January, 1971 in which it challenges patents '378 and '566. The complaint thus explains the background of this action:

> Westwood has demanded that further payments be made by PPG and, on or about December 8, 1970, instituted arbitration proceedings pursuant to said agreement of January 1, 1962 and the Rules of the American Arbitration Association to compel further royalty payments by PPG under said United States Letters Patent No. 2,742,378 and No. 2,841,566 and said agreement.

III.

In seeking a declaratory judgment that the licensing agreement is unenforceable and a judgment against Westwood on its counterclaim for royalties, PPG does not rely on any claim that Westwood breached the licensing agreement. Rather, PPG advances arguments based on federal patent law policies recognized in *Lear v. Adkins,* 395 U.S. 653 (1969). PPG argues that an order forcing it to pay additional royalties under the 1962 agreement would contravene the strong federal law and policy that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. PPG insists that this overriding federal policy favoring free competition in ideas which do not merit patent protection would be frustrated if this court should force payment of royalties under invalid patents.

The Supreme Court granted certiorari in *Lear v. Adkins, supra,* principally a royalties contract case

arising under state law, to reconsider the federal question of patent licensee estoppel relied on by the California Supreme Court. It did so

> in the light of our recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection. [Citations]

395 U.S. at 656.

The federal patent law policies on which PPG here relies were articulated in that portion of the Court's opinion in which it overruled the patent license estoppel doctrine last recognized in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950). The Court noted that two "competing demands" require reconciliation:

> On the one hand, the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made. On the other hand, federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. *Sears, Roebuck v. Stiffel Co.*, [376 U.S. 225 (1964)]; *Compco Corp. v. Day-Brite Lighting, Inc.*, [376 U.S. 234 (1964)].

395 U.S. at 668. The Court later reasoned:

> Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of the license after a patent has issued.

395 U.S. at 670-71.

Based on this analysis, the Court concluded that *Automatic Radio, supra* "should no longer be regarded as sound law in respect of its 'estoppel' holdings."[3]

Therefore, at any time after June 16, 1969, the date *Lear* was decided, PPG was free to challenge the validity of patents '378 and '566. However, PPG chose not to challenge these patents until it filed this action. Nevertheless, PPG prays in its complaint that patents '378 and '566 be declared "void *ab initio* and unenforceable," and that the agreement between Westwood and PPG be declared "unenforceable." While *Lear* may be read to require granting the relief sought after January 18, 1971, when PPG first challenged the validity of the patents, neither of the *Lear* holdings is dispositive of the obligations of the parties before that date.

PPG cannot recover royalties already paid to Westwood. In *Troxel v. Schwinn*, 464 F.2d 1253 (6 Cir. 1972) (*Troxel* I), the Court of Appeals refused to extend *Lear* to permit Troxel, a licensee of Schwinn, to recoup back

3. The Court then went on to hold that Lear "must be permitted to avoid the payment of all royalties accruing after Adkins' 1960 patent issued if Lear can prove patent invalidity." 495 U.S. at 674. However, the Court remanded to the California courts the issue of Adkins' right to royalties accruing before the issuance of the patent, as well as the issue of patent validity.

royalties. Troxel had continued to pay royalties to Schwinn while another licensee was contesting validity of a Schwinn bicycle saddle patent in the California federal courts. Chief Judge Phillips held:

> Schwinn's patent was held invalid by the California district court and by the Court of Appeals for the Ninth Circuit in view of such "available prior art." In these circumstances, once a patent has been declared invalid by a court, we do not consider it equitable to require the disenfranchised patentee to refund to all licensees all royalties that have been collected under licensing agreements prior to the adjudication of invalidity.

465 F.2d at 1259-60.[4]

Atlas Chemical Industries, Inc. v. Moraine Products, No. 74-1141-42 (6 Cir. Dec. 12, 1974), reiterated the difference between *Lear v. Adkins* and *Troxel*. The court declared:

> *Troxel* did *not* involve an action by a licensee attacking the validity of a patent owned by the licensor. It was *not* the type of suit authorized by *Lear v. Adkins*, 395 U.S. 653 (1969).
>
> The present suit *is* an action by a licensee, Atlas, attacking the validity of a patent owned by the licensor, Moraine. The instant case *is* the type of suit authorized by *Lear v. Adkins*.

In support of its position that Westwood should not be permitted to recover unpaid back royalties, PPG cites

4. *Troxel* II, decided between the same parties, 487 F.2d 968 (6 Cir. 1973), considered several issues not pertinent here. In addition, the court reaffirmed its ruling in *Troxel* I and emphasized that, under *Drackett Chem. Co. v. Chamberlain Co.*, 63 F.2d 853 (6 Cir. 1933), licensee Troxel had a duty to pay royalties until the date the patent was evicted.

the second sentence of the following quotation from *Troxel* I:

> The public interest is protected adequately under *Lear* without imposing on the patent holder the obligation to refund royalties paid under the license of a patent procured and asserted in good faith. A licensee may at any time cease royalty payments, secure in the knowledge that the invalidity of the patent may be urged when the licensor sues for unpaid royalties.

This language harks back to language in *Blonder-Tongue, supra* which reads:

> *Lear* permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties.

402 U.S. at 346.

The present case cannot be governed by this reference to *Lear* since the present case is not a *Lear* situation. Rather, licensee PPG generally corresponds to the following description of licensee Troxel contained in *Atlas, supra*.

> In the *Troxel* cases the licensee was doing nothing to contest the validity of the patent. The licensee continued to enjoy the fruits of the license. Only because of *Blonder-Tongue* . . . did the licensee become an incidental beneficiary to the invalidity established in the litigation initiated and prosecuted by another party in another circuit.

However, it is manifest that *Troxel* I and *Troxel* II are not entirely dispositive of the present case because PPG,

unlike Troxel, is not seeking to recoup back royalties from Westwood. Instead, PPG seeks a declaratory judgment that the licensing agreement is unenforceable with respect to royalties that have become due since June 30, 1968; and Westwood counterclaims for these unpaid royalties.

Thus, as to the period before January 18, 1971, PPG falls somewhere in between the licensee in *Lear* who actively challenged the validity of his licensor's patent, and the licensee in *Troxel* who continued to pay royalties until his licensor's patent was evicted and later tried to recoup royalties already paid.

Plaintiff PPG would have this court interpret *Lear* to mean that once a patent has been determined to be invalid the licensee and licensor are left *in statu quo* and, despite the circumstances of the particular case the, licensee cannot thereafter be required to make any royalty payments to the licensor. This argument amounts to saying that a federal court is forbidden by *Lear* from exercising its power to achieve equity or to prevent inequity in a patentee-licensee relationship once the licensed patent has been determined to be invalid. *Lear* issued no such ukase, nor have post-*Lear* cases so construed *Lear*.

That the court retains its equity powers was made clear, for example, in *Kraly v. National Distillers & Chem. Corp.*, 502 F.2d 1366, 1372 (7 Cir. 1974). In that case, the court considered National Distillers' cross-appeal after upholding the district court's invalidation of Kraly's patent. The court said:

> National Distillers' cross-appeal relates to the court's awarding of royalties to Kraly for the last quarter of 1969 and the first three quarters of 1970

> plus interest. The court keyed the terminal date of National Distillers' royalty obligation to the date on which National Distillers stopped marking its product with Kraly's patent number. Anticipating the result reached by this court in *Ransburg* [*Electric-Coating Corp. v. Spiller & Spiller, Inc.*, 489 F.2d 974 (7 Cir. 1073)], the lower court presciently reasoned: "We do not, however, believe that our present finding of invalidity relieves the defendant of its obligation to pay royalties for the period in which it was enjoying the benefit of its license and representing to the public that its product was licensed under the Kraly patent. So long as [the] defendant sought the protection of the patent, it is only equitable that it should discharge its royalty obligation under the license agreement. Once it ceased to represent that its product was licensed under the patent, it had repudiated the license agreement and assumed the risk of being found liable for infringing without receiving the concomitant commercial benefit of being a licensee."

503 F.2d at 1372. Directly pertinent here is its observation about "the appropriate use of judicial power."

> . . . *Ransburg* properly distinguishes between the refusal of courts to enforce prospectively the terms of a licensing agreement when the underlying patent has been declared invalid and the appropriate use of judicial power to enforce the terms of a licensing agreement during the period prior to an adjudication of invalidity in which both parties benefited from the agreement.

503 F.2d at 1372. The court then referred to *Troxel* I.

> This principle was implicitly approved in *Troxel Manufacturing Co. v. Schwinn Bicycle Co.,* 465 F.2d 1253 (6 Cir. 1972), by the Sixth Circuit, which refused to permit licensees of a patent subsequently held to be invalid to recover all royalties ever paid on that patent. The application of such equitable principles by the district court with respect to this issue was eminently correct.

503 F.2d at 1372.

What then are the equitable considerations that should be balanced between the parties during the period from June 30, 1968 when PPG stopped paying royalties and January 18, 1971, when PPG filed this action and for the first time challenged the validity of the licensee patents?

Plaintiff PPG speaks of "free competition in ideas which do not merit [the] patent protection," and says this would be "frustrated if this court should force payment of royalties under invalid patents." This argument crumbles under the impact of Section 6.2 of the licensing agreement that gave PPG "the right to terminate this agreement by giving Westwood thirty (30) days' notice in writing of its intention so to do." PPG had an unqualified right of license termination, a right denied to Lear by the California Supreme Court, 67 Cal.2d 882, 435 P.d 321 (1967). Had it decided that patents '378 and '566 were invalid, PPG had the right to terminate the licensing agreement and manufacture and sell the same fiber glass fillers coated with vinyl silane coupling agents that it was producing subject to the licensing agreement. Upon termination of the agreement, PPG's obligation to pay royalties would have ceased; and with termination of the license PPG was free to challenge the validity of

patents '378 and '566 should Westwood have sued it as an infringer. This freedom existed even before *Lear* was decided, since *Lear's* abrogation of patent licensee estoppel necessarily only affected those situations in which the patentee-licensee relationship was still in effect.

As previously concluded, PPG chose not to terminate the agreement. Its cessation of royalties was never intended to serve and did not serve that purpose. Even after Judge Connell ruled that the patents were invalid PPG still did not terminate the agreement. In the event of reversal by the court of appeals and a final adjudication of patent validity, as Mr. Johnston puts it, "Yes, we would still have that license agreement alive." Thus PPG and its customers continued to receive immunity from infringement suit, stressed in the trade notices which had never been withdrawn or canceled. Having deliberately chosen to perpetuate the licensing agreement, having continued to receive benefits thereunder for itself and its customers, and having never challenged the validity of the licensed patents until it filed this action on January 18, 1971, PPG is not entitled to a declaration of unenforceability of the licensing agreement beginning earlier than January 18, 1971.

Westwood insists that it is entitled to recover unpaid royalties until eviction of the patents occurred. Eviction of the TeGrotenhuis patents '378 and '566 occurred on August 24, 1971 when *Westwood Chemical, Inc. v. Owens-Corning Fiberglas Corp.,* 445 F.2d 911 (6 Cir. 1971) modified and affirmed Judge James C. Connell's adjudication that the patents were invalid, 317 F.Supp. 201 (N.D. Ohio 1970).[5] However, under the rule

5. Fixing this date as the date of eviction is in accord with *Troxel II's* approval of *Troxel I's* holdings, 489 F.2d 968 (6 Cir. 1971).

established in *Lear* that a licensee is free to challenge the licensed patent and to then cease paying royalties, it is concluded that PPG's obligations to pay royalties necessarily ceased upon the filing of its action challenging the validity of the TeGrotenhuis patents. It would be inequitable to use any later date.

Therefore, the licensing agreement is declared unenforceable from January 18, 1971. All unpaid royalties through January 18, 1971, together with interest thereon shall be determined and judgment shall be entered in said amount. PPG is directed to submit to the court, with copy to Westwood's counsel, the computation of this total amount. Westwood shall have ten days after notice to accept or reject the computation. If Westwood rejects it, a hearing will be ordered to ascertain the correct amount of the judgment. If Westwood accepts it, a Rule 58, Fed.R.Civ.P. order will be prepared and filed by the court.

IT IS SO ORDERED.

/s/ William K. Thomas
United States District Judge

APPENDIX C

ORDER OF

UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF OHIO

EASTERN DIVISION

Order

[Filed April 16, 1975]

THOMAS, J.

This court filed its Memorandum and Order on March 17, 1975. Therein PPG was directed to make computation of the total amount of all unpaid royalties through January 18, 1971. PPG has now submitted several computations for different periods. Its computation for the period July 1, 1968 to January 18, 1971, including interest, totals $163,222.92.

By communication to this court defendant Westwood has advised the court and opposing counsel "that the interested defendants will accept without hearing, a judgment in the sum of $163,222.92 representing accrued royalties payable with interest to January 18, 1971." This is done with certain qualifications not here material.

Pursuant to Rule 58, F.R.Civ.P. and in accordance with the court's Memorandum and Order of March 17, 1975, it is concluded and determined that PPG is indebted to Westwood and other interested defendants in said amount. Judgment is entered in favor of Westwood and interested defendants, and against PPG, in said amount of $163,222.92 together with interest from date of this order.

APPENDIX D

LICENSE AGREEMENT BETWEEN

WESTWOOD CHEMICAL, INC.

AND

PITTSBURGH PLATE GLASS COMPANY
(NOW PPG INDUSTRIES, INC.)

AGREEMENT

THIS AGREEMENT, made as of the 1st day of January, 1962 by and between:

WESTWOOD CHEMICAL, INC., a corporation of the state of Ohio having an office and principal place of business at 204 First Federal Building, 326 South Main Street, Akron 8, Ohio, hereinafter referred to as "Westwood";

and

PITTSBURGH PLATE GLASS COMPANY, a corporation of the Commonwealth of Pennsylvania, having an office and principal place of business at One Gateway Center, Pittsburgh 22, Pennsylvania, hereinafter called "PPG";

WITNESSETH:

Whereas:

Westwood is the owner of the entire right, title and interest in the U.S. patents listed below and has the right to grant the licenses, rights and immunities herein specified under each of the following patents and applications:

(1) U. S. Patent 2,742,378

(2) U. S. Patent 2,841,566

(3) Canadian 463,972

(4) Canadian 528,080

(5) Canadian 556,193

(6) British 656,549

(7) French 1,014,531

(8) Australian 149,980

(9) Australian 159,910

(10) Argentine 110,921

(11) Chilean 15,136

(12) Venezuelan Application No. 1042

Whereas, PPG is interested in

(1) Obtaining a non-exclusive license to make, use and sell articles and to practice processes claimed in one or more of said U. S. patents;

(2) Obtaining for its customers immunity from suit for infringement of licensed patents as hereafter defined because of its customers' manufacture, use or sale of licensed products as claimed in the licensed patents in which are incorporated primary products on which the royalty hereinafter provided for is payable by PPG to Westwood, and

(3) Obtaining immunity from suit for infringement of any foreign patents as hereinafter defined for itself and its customers for practice of any of the inventions covered in said foreign patents wherein primary products are used on which royalty as hereinafter provided for is payable by PPG to Westwood.

NOW THEREFORE, for and in consideration of the mutual covenants and agreements herein contained, the parties hereto, intending to be legally bound hereby, covenant and agree as follows:

Section 1—Definitions

1.1 Whenever used in this agreement, unless otherwise clearly indicated in the context, the following terms shall have the meanings as defined in this Section 1.

1.2 "Licensed patents" shall mean U. S. Letters Patent No. 2,742,378 granted April 17, 1956 entitled "Fillers Having Vinylsiloxane Groups Bonded to the Surface Thereof and Copolymers Thereof with Ethylenically Unsaturated Polymerizable Monomers," U. S. Letters Patent No. 2,841,566 granted July 1, 1958 entitled "High Polymers with Chemically Bonded Reinforcing and Method of Making Same" and all other U. S. Letters Patent now or hereafter owned or acquired by Westwood claiming an invention disclosed in the aforesaid U. S. Letters Patent.

1.3 "Foreign patents" shall mean all patents issuing in countries other than United States corresponding to the licensed patents and including, but not limited to the following patents, and the patents which issue on the following applications:

Canadian Patent 463,972

Canadian Patent 528,080

Canadian Patent 556,193

British Patent 656,549

French Patent 1,014,531

Australian Patent 149,980

Australian Patent 159,910

Argentine 110,921

Chilean 15,136

Venezuelan Application No. 1042

1.4 "Licensed products" shall mean glass fibers or products containing glass fibers, which glass fibers or products are covered by one or more claims of the licensed patents or are made by use of an invention covered by one or more claims of the licensed patents.

1.5 "Strand" shall mean a bundle of parallel, substantially continuous, glass filaments produced by mechanically drawing individual glass filaments from a supply of molten glass and grouping the filaments in parallel relation in a bundle.

1.6 "Roving" shall mean a plurality of strands bundled together or one strand looped back and forth on itself to give the cross-sectional effect of a plurality of strands bundled together.

1.7 "Primary product" shall mean a product in the form of strand or roving but does not include fabricated products.

1.8 "Fabricated product" shall mean a product fabricated from strand or roving such as by coating, in addition to the coating treatment covered by the licensed patents, twisting, plying, chopping, shaping or combining with another material, including by way of illustration but not limitation, yarn, plastisel coated yarn, cord, chopped strand, scrim or non-woven fabric, swirl mat, chopped strand mat, woven products such as woven roving and woven industrial fabrics, and reinforced products such as reinforced paper and reinforced plastics.

1.9 "PPG" shall mean PPG and its subsidiaries.

1.10 "Subsidiary" shall mean any corporation fifty percent (50%) or more of whose stock entitled to vote upon election of directors is owned or directly or indirectly controlled by PPG.

1.11 "Net sales" shall mean the total amount payable to PPG by purchasers of primary products sold by PPG, less any freight, sales, excise or use taxes, export rebates and insurance charges, bona fide trade and cash discounts to independent jobbers, dealers or other purchasers, insofar as such freight, taxes and/or discounts are actually paid or granted by PPG. In the case of sales, directly or indirectly, to the United States government, net sales and royalties paid or payable thereon shall be readjusted in accordance with any reduction or increase in the contract or sale price of primary products so sold, resulting from retroactive price revision or price redetermination applicable to such sales.

1.12 "Equivalent net sales" shall mean the net sales value of primary products which are not sold as such by PPG but are used by PPG in the making, processing, assembling or fabricating of fabricated products and are sold only as a part or component of a fabricated product or which are otherwise beneficially consumed by PPG. In the case of sales of fabricated products, directly or indirectly, to the United States government, the price of any primary product as revised or redetermined under Subsection 1.11, or as revised or redetermined in connection with any reduction or increase in the contract or sales price of fabricated products so sold, resulting from retroactive price revision or price redetermination applicable to such sales, shall be used in computing equivalent net sales. Equivalent net sales of primary products shall be computed when the fabricated products are sold, as follows:

(a) If the same or substantially the same primary product is currently being sold by PPG at a bona fide selling price, equivalent net sales on

that portion of the primary product not sold but used by PPG shall be computed on the basis of PPG's lowest bona fide selling price therefor, in the quantities in which such primary product is used by PPG.

(b) If the primary product is not currently being sold by PPG at a bona fide selling price, but the same or substantially the same primary product is sold by another, equivalent net sales of the primary product shall be computed upon the basis of the lowest selling price therefor by others, in the quantities in which such primary product is used by PPG.

(c) If the primary product is not currently being sold by anyone at a bona fide selling price, equivalent net sales shall be computed on the basis of the fair market value of such primary product, if it were currently being offered for sale in the quantities in which it is used by PPG, which selling price shall be determined by agreement of the parties, or failing agreement shall be computed upon the basis of the selling price of the fabricated product into which the primary product is formed or incorporated by taking the proportion which the average standard manufacturing cost of the primary product bears to the average standard manufacturing cost of the fabricated product during the six-month accounting period in which the fabricated product is made. For the purposes of this computation, PPG shall not be obligated to disclose any information to Westwood with respect to its costs, except the proportion referred to herein.

Section 2 — Warranty

2.1 Westwood warrants that it has the entire right, title and interest in the licensed patents and warrants that it has the right to grant the licenses under the licensed patents and the immunity rights under the foreign patents hereinafter granted by Westwood.

Section 3 — Patent License and Immunity

3.1 Westwood hereby grants to PPG a non-exclusive, non-transferable license under the licensed patents to make, use and sell the licensed products throughout the United States, its territories and possessions.

3.2 Westwood hereby grants to PPG a non-exclusive, royalty-free immunity from suit for infringement under the foreign patents for the use and sale in countries outside of the United States of licensed products manufactured in the United States, its territories and possessions pursuant to this license and on which royalty is payable or paid to Westwood as herein provided.

3.3 Westwood hereby grants to PPG the right to grant to customers of PPG a royalty-free immunity from suit for infringement under the licensed patents and foreign patents for the manufacture, use or sale of licensed products where such licensed products contain a product upon which a royalty as hereinafter provided for is payable by PPG to Westwood. Such immunity as provided for in this subsection, however, shall not extend to such customers' manufacture, use or sale of a composite article or method of making same covered by a claim or claims of an unexpired licensed patent if in such composite article there is incorporated additional fibers and/or inorganic solids on which royalty would be due Westwood from a licensee of Westwood if such additional fibers or inorganic solids had been acquired from such licensee of Westwood.

Section 4 — Royalty

4.1 Effective as of January 1, 1958 and during the term of this agreement, PPG hereby agrees to pay to Westwood a royalty of one percent (1%) of the net sales or equivalent net sales of all primary products used or sold by PPG and covered by a claim or claims of an unexpired licensed patent or known by PPG to be intended for use in composite articles claimed in an unexpired, licensed patent.

4.2 No more than one royalty shall be payable on any primary product.

4.3 No royalty shall be payable hereunder for primary products supplied to another licensee under the licensed patents who is obligated to pay royalty under any of such patents for the use and/or sale of licensed products. PPG shall, however, keep Westwood informed of the amount of such sales and the customer to whom the sale is made, and Westwood agrees to keep such data confidential as to the source and to use it only in connection with dealings with such other licensee or with PPG. Westwood shall promptly inform PPG of the names and addresses of all licensees.

4.4 PPG shall report and pay to Westwood as promptly as is reasonable the amount of back royalty due Westwood under Subsection 4.1 hereof between January 1, 1958 and the effective date of this agreement.

4.5 Should the total amount of royalty payable Westwood by PPG in any one calendar year starting after the calendar year in which this agreement is executed be less than one thousand dollars ($1,000), PPG agrees to pay Westwood sufficient additional royalty to bring the total royalty payments for that calendar year to one thousand dollars ($1,000).

4.6 If Westwood or its assignees have heretofore granted or shall hereafter grant a license under any one or more claims of the licensed patents to any other person (excepting The General Tire and Rubber Company) on terms (such as average rate of royalty per pound of primary product) more favorable in any respect to those recited herein, PPG, at its option, shall thereupon have the benefit of such more favorable terms effective as of the date on which said more favorable terms apply to said other person. The release of any subsequent licensee from royalties due after January 1, 1958 and before any notice of the licensed patents was personally called to the attention of said licensee shall not be construed to be a more favorable term in the license.

4.7 If any claim of the licensed patents is held invalid or of such limited scope as not to cover methods employed or articles produced by PPG by the judgment of a court of competent and final jurisdiction or by the judgment of a court of competent but lower jurisdiction from which no appeal is taken within the time allowed by law, the obligation to pay royalty as provided for in this Section 4 with respect to such claim so adjudged shall thereafter cease until a court of competent jurisdiction has entered a judgment in conflict with such former judgment with respect to such claim.

Section 5 — Accounts and Payments

5.1 PPG shall keep such records as may be necessary to show the royalty amounts payable to Westwood hereunder and shall report and pay to Westwood on or before the first day of February and August of each calendar year the royalty amount due Westwood under Section 4 herein during the preceding six-months period ending respectively on December 31 or June 30.

5.2 PPG agrees, at the request of Westwood, to permit an independent certified public accountant selected by Westwood, except one to whom PPG has some reasonable objection, to have access during ordinary business hours to such records mentioned in Subsection 5.1 as may be necessary to determine in respect to any calendar half year, ending not more than three (3) calendar years prior to the date of such request, the correctness of any report or payment made under this agreement. Such accountant shall not disclose to Westwood any information relating to the business of PPG except that which should properly have been contained in any report hereunder.

Section 6 — Termination

6.1 This agreement shall terminate with the expiration of the last to expire of the licensed and foreign patents; subject, however, to earlier termination as provided hereafter in this Section 6.

6.2 PPG shall have the right to terminate this agreement by giving Westwood thirty (30) days' notice in writing of its intention so to do.

6.3 In the event that further lawful performance of this agreement or any part thereof is rendered impos-

sible by a final judgment or final order entered by a court, commission or agency of the United States having jurisdiction over either party, whether the entry of such judgment or order be consented to by such party or not, the parties covenant and agree that they will exert their best efforts to agree on an amendment or amendments to this agreement or on modifications of their practices hereunder in such manner as will fully comply with said final judgment or final order. In the event that the parties are unable within a period of six (6) months' after written notice by either party to the other of such impossibility of lawful performance, to reach such an agreement, either party may terminate this agreement by written notice to the other party. All rights or obligations of either party under this agreement or the portion thereof adjudged invalid by such final judgment shall thereafter be suspended pending negotiations between the parties as herein provided to remedy such invalidity.

6.4 In the event that any time hereafter there shall not be pending a suit by Westwood against an infringer of the licensed patents based upon infringement on such scale that if licensed on the terms herein imposed the annual royalty return to Westwood would be at least two thousand dollars ($2,000) per year, then if any person or concern, without a license or right under the licensed patents, shall produce products coming within the definition of licensed products and if:

(1) PPG shall give Westwood written notice that such production has infringed a claim or claims of the licensed patents and

(2) PPG shall request that suit be brought under a licensed patent against such person, concern or third party because of such infringement and

(3) Westwood fails to bring such suit under some one or more of the licensed patents or to obtain discontinuance of such infringement or to license such infringer within six (6) months after receipt of such request, and

(4) Sales of said person or concern of such products is of such volume as to produce, if licensed, royalties of at least two thousand dollars ($2,000) per year,

then, in such case PPG shall be relieved of the payment of royalties, with respect only as to the licensed patents so alleged to be infringed until the day Westwood shall bring suit against an infringer or shall obtain discontinuance of said infringement or license said infringer; provided, however, that if during said six (6) months' period Westwood shall have entered into bona fide negotiations to license such infringer and within six (6) months after the expiration of said such six (6) months' period shall license such infringer, then PPG shall not be relieved from paying royalties under this subsection with respect to any period for which royalties shall be paid on such material by such infringer except to the extent that the rate of royalties payable by PPG hereunder exceeds the rate of royalties paid by such infringer for such period.

6.5 Upon failure or inability of either party to perform any obligation under this agreement, the other party may give notice in writing to the party in default specifying the thing or matter requiring performance. Unless such performance be accomplished within sixty (60) days following the giving of such notice, the party seeking performance may give further written notice to the party in default terminating this

agreement, in which event this agreement shall terminate on the date specified in such further notice. Waiver by either party of any single failure or inability or succession of failures or inabilities shall not deprive the other party of any right to terminate this agreement arising by reason of any subsequent failure or inability.

6.6 Notwithstanding termination of this agreement in accordance with this section, neither party shall be relieved from liability to the other for any breach of this agreement occurring prior to the date of termination.

6.7 In the case of termination of this agreement for any cause whatsoever, all rights and obligations of the parties hereunder shall cease and their original rights of prosecution and defense of infringement suits shall be restored to the same effect as if this agreement had not been executed, subject, however, to the provisions of Subsection 6.6 hereof.

Section 7 — Assignment

7.1 This agreement shall be binding upon and inure to the benefit of any successor or assignee of Westwood and shall be binding upon and inure to the benefit of any successor or assignee of substantially the whole of the business of PPG related to the licensed products, but except as in this subsection expressly provided, this agreement shall not be assignable.

Section 8 — Notices

8.1 Any notice required or authorized to be given by either party hereunder to the other party shall be reduced to writing and shall be deemed effectively served when deposited in the United States mail in a

sealed envelope with sufficient postage affixed, registered with return receipt requested, and addressed to the party to whom such notice is directed at the post office address which in the case of Westwood shall be 204 First Federal Building, 326 South Main Street, Akron 8, Ohio, and PPG shall be One Gateway Center, Pittsburgh 22, Pennsylvania. Either party may change postal address by written notice to the other.

Section 9 — Arbitration

9.1 Any controversy or claim arising out of or related to this agreement or the breach thereof shall be settled by arbitration in accordance with the rules of the American Arbitration Association, and judgment upon the award rendered may be entered in any court having jurisdiction thereof.

Section 10 — Interpretation

10.1 All section captions or titles are inserted for ready reference only and are without contractural significance or effect.

10.2 Nothing in this agreement shall be construed as a contractural limitation upon the right of either party hereto to manufacture, use or sell licensed products in any country or geographical subdivision thereof.

10.3 This agreement shall be construed in accordance with the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF the parties have executed this agreement as follows:

WESTWOOD CHEMICAL, INC.
By /s/ GARRY B. CURTISS
Vice President

Attest:
/s/ T. A. TEGROTENHUIS
Secy.

PITTSBURGH PLATE GLASS COMPANY
By /s/ R. F. BARKER
Vice President

Attest:
/s/ ROSE M. PECORA
Assistant Secretary

In The

Supreme Court of the United States

October Term, 1975

NO. 75-1658

WESTWOOD CHEMICAL, INC. et al.,
Petitioners,

v.

PPG INDUSTRIES, INC.,
Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1975

NO. 75-1658

WESTWOOD CHEMICAL, INC. et al.,
Petitioners,
v.
PPG INDUSTRIES, INC.,
Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

The petition in this case does not present a question within the *certiorari* jurisdiction exercised by this Court.

None of the considerations governing review on *certiorari* set forth in Rule 19 is applicable here. The decision below is not in conflict with a decision of another Court of Appeals on the same matter or in conflict with applicable decisions of this Court. Nor did the Court below decide a question of law "which has not been, but should be, settled by this court." There are no special and important reasons for review and there is nothing in the case calling for an exercise of this Court's power of supervision.

The District Court and the Court of Appeals concurred in holding that, on the facts of this case, PPG was relieved of the payment of royalties under a patent license agreement from and after the date PPG brought this declaratory judgment action challenging the validity of the licensed U. S. patents. Those holdings were squarely based upon this Court's decisions in *Lear, Inc. v. Adkins,* 395 U.S. 653 (1969) and *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation et al.,* 402 U.S. 313 (1971).

OPINIONS BELOW

The Opinion of the United States District Court for the Northern District of Ohio (Thomas, J.) is not reported but is set forth as Appendix B to the petition; and the Order of the District Court appears as Appendix C to the petition. The Opinion of the Court of Appeals for the Sixth Circuit is unofficially reported at 189 U.S.P.Q. 399 and is set forth in Appendix A to the petition.*

JURISDICTION

The jurisdictional requisites are set forth correctly in the petition.

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*For convenience, reference to either Opinion will be to the petitioners' appendix, e.g., "App. A, p. ....." Italics within quotes are ours unless the contrary is noted. Respondent, PPG Industries, Inc., is referred to herein as "PPG" and petitioners are referred to as "Westwood."

QUESTIONS PRESENTED

Neither of the questions as stated by petitioners is present in this case. The Courts below concurred in holding that, under *Lear, supra,* PPG was free to challenge the validity of the licensed patents and cease paying royalties and that PPG's obligation to pay royalties necessarily ceased upon the filing of this action on January 18, 1971.

The fact that foreign patents were included in the license is irrelevant because (a) the limited license under the foreign patents was royalty free, (b) the royalty provisions relate only to the "licensed patents," which is defined as the United States patents, and (c) there is no proof or even a suggestion that PPG or its customers ever operated under the license in any foreign country. Likewise, the fact that PPG could cancel the agreement but did not do so is irrelevant. Neither *Lear* nor any of the cases decided subsequently requires such action by the licensee.

Therefore, the question presented might more accurately and simply be stated as follows:

May a licensee obligated to pay royalties under "licensed patents" which are, in fact, invalid cease paying royalties and file a declaratory judgment action challenging the validity of the "licensed patents" and stand freed of further royalty payments from and after the filing of the suit if invalidity is, in fact, established?

STATUTES INVOLVED

The Patent Laws of the United States (35 U.S.C.) and the constitutional provision (Article 1, Sec. 8, Clause 8) on which those Patent Laws are based may be said to be involved, but no specific provision thereof need be considered to dispose of the petition in this case.

STATEMENT OF THE CASE

While petitioners' statement of the case, in large measure, is accurate, nevertheless it contains several inaccuracies and omissions.

The fact that the license agreement grants certain limited rights under foreign patents corresponding to the invalid licensed U. S. patents is totally irrelevant (as the Courts below, in effect, held). Any license or immunity granted under the foreign patents was "royalty free" (App. D, p. 44a, Sec. 3.2). Moreover, the foreign rights were limited to the use and sale in countries outside the United States of products manufactured under license in the United States and on which royalty was payable under the agreement. There was no foreign license except this royalty-free, limited right granted under the foreign patents; and there is no royalty provision in the agreement covering any operations under the foreign patents. Moreover, there is no evidence—or even a suggestion—in the record in this case that PPG or its customers at anytime operated in any way under any of the foreign patents either under the license or in infringement.*

*The foreign patents are probably as invalid as the U. S. patents, but whether valid or invalid is irrelevant.

Petitioners say that PPG had the right to cancel the agreement by virtue of the provisions of Section 6.2 (App. D, p. 47a) of the license agreement. This is correct, but petitioners also had the full right to cancel the agreement if they saw fit to do so after PPG stopped paying royalties in early 1970. However, the right of cancellation is plainly irrelevant under the *Lear* doctrine, as will be pointed out hereinafter.

Petitioners say (Pet. 18) that the District Court declared invalid "without any evidence, all of the many unadjudicated claims of the '378 and '566 patents." This is incorrect. Petitioners admitted in the District Court that the '378 and '566 patents were dead in view of the prior decisions in *Westwood Chemical, Inc. v. Owens Corning Fiberglas Corporation,* 317 F.Supp. 201 (N.D. Ohio, 1970); Mod. and Aff. 445 F.2d 911 (6 Cir., 1971); Cert. Den. 405 U.S. 917 and *Westwood Chemical, Inc. v. Molded Fiber Glass Body Company,* 380 F. Supp. 517 (N.D. Ohio, 1973); Aff. 498 F.2d 1115 (6 Cir., 1974). In addition, petitioners accepted the judgment of the trial Court that all the claims of the "licensed patents," i.e., the U. S. patents, were invalid (Pet. 18).

Petitioners assert (Pet. 19-20) that the Courts below failed to consider the fact that the agreement was still "viable" notwithstanding the invalidity of the "licensed patents," i.e., the two U.S. patents, "in light of the viability" of the foreign patents. While the Court, in its Opinion, did not comment on petitioners' argument in regard to the foreign patents, the same argument that is now made to this Court was made to the Court of Appeals and obviously was rejected because there was no showing that either PPG or any of its customers ever operated under any of the foreign patents or because there was no showing that such operations were within the license.

REASONS FOR DENYING THE WRIT

As stated, *supra*, page 1, the primary reason for denying the writ is that none of the considerations governing review on *certiorari* set forth in Rule 19 is present here. Entirely apart from this, however, the decision below gives petitioners even more than they are entitled to under respondent's view of this Court's prior decisions.

It is and always has been respondent's position that, under the "strong federal policy" enunciated by this Court in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969) and in *Blonder-Tongue Labora ories, Inc.* v. *University of Illinois Foundation et al.*, 402 U.S. 313 (1971), PPG was entitled to "cease paying" royalties "secure in the knowledge" that invalidity could be urged by it when confronted with a claim by Westwood for unpaid royalties and that Westwood's claim would be denied if invalidity could be established (which it has been). The Court below, however, held that mere cessation of the royalty payments was not sufficient, that there was no challenge to validity by PPG until it filed this action on January 18, 1971 and that, therefore, that was the proper cut-off date after which no further royalties need be paid by PPG.

In *Lear*, this Court, in rejecting licensee estoppel in view of the strong federal policy, pointed out that federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. The Court noted that, when faced with this basic conflict in policy, both that Court and Courts throughout the land had sought an intermediate position, but the result had been a failure. The Court then pointed out that, before renewing the search for an acceptable middle ground, it should consider on their merits the arguments which might be advanced on the estoppel question. In this connection, the Court stated (pp. 670-71):

> "Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. . . . We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued."

This Court (p. 673) then considered the question of whether *Lear* should be required to comply with the contract and continue to pay royalties until its claim of invalidity was finally vindicated in the Courts and pointed out that the decisive question on this matter was "whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts." On this point, the Court said that such a requirement "would be inconsistent with the aims of federal patent policy."

The Court went on to point out that the licensee must be freed from liability "at least from the time he refuses to pay the contractual royalties" and that enforcing the contractual provisions, i.e., those requiring the payment of royalties, would undermine the strong federal policy favoring the full and free use of ideas in the public domain. Consequently, the Court held that (p. 674):

"Lear must be permitted to avoid the payment of all royalties accruing after Adkins' 1960 patent issued if Lear can prove patent invalidity."

Two years after the *Lear* decision, this Court again had occasion to give consideration to the "strong federal policy" considered in *Lear*. In *Blonder-Tongue,* the Court, in regard to its earlier holding in the *Lear* case, pointed out (pp. 345-46):

> "*Lear* permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties."

The thrust of petitioners' argument is that the rule of *Lear* and *Blonder-Tongue* is inapplicable here (a) because of the existence of several foreign patents in the license agreement and (b) because of the unlimited right of PPG to terminate the agreement at anytime after giving notice. There is no substance to either of these points.

The foreign patents were not relied upon by petitioners in the District Court and, hence, there is no showing as to what those patents covered or when they expired or whether they were ever used by PPG or any of its customers. Moreover, no royalties ever accrued under those patents. The limited license under those foreign patents was royalty free. Royalties were payable only under the "licensed patents" which were defined in the agreement as the United States patents. Moreover, there is no showing that any of PPG's products produced under the license agreement were ever

exported into any of the countries in which Westwood had foreign patents.

In regard to the cancellation provision of the agreement, no requirement was laid down in *Lear* that the licensee must do anything more in the way of standing out from under the agreement than to cease paying royalties. In *Lear,* there were two provisions permitting Lear to terminate the agreement. One was a plain provision to the effect that Lear would have the right on ninety days' prior written notice to terminate any one or more of the licenses granted (*Adkins* v. *Lear, Inc.,* 435 P. 2d at 325; 156 U.S.P.Q. 258, 264, 268, 269). Thus, the distinction urged by petitioners flies in the face of this Court's holding in *Lear*.

The same distinction asserted here by petitioners was asserted and rejected in *American Sterilizer Company* v. *Sybron Corporation et al.,* 526 F. 2d 542, 546 (3 Cir., 1975).

The Courts of Appeals have uniformly held that the license agreement need not be cancelled in order for the licensee to be relieved of further liability.

In *Beckman Instruments, Inc.* v. *Technical Development Corporation,* 433 F. 2d 55 (7 Cir., 1970), the Court applied *Lear* in a situation quite similar to that here. Beckman did not terminate or repudiate the agreement; and it remained in effect during the litigation. The Court held that the fact that patent invalidity did not amount to a *total* failure of consideration and that the licensee received some benefits from the agreement did not prevent the licensee from avoiding payment of royalties under the invalid patent.

In *Product Engineering and Manufacturing, Inc.* v. *Barnes,* 424 F. 2d 42 (10 Cir., 1970), the Court expressly pointed out (p. 44) that *Lear* "did not depend upon whether or not the royalty agreement was still in effect as appellant urges." See also to like effect *Crane* v. *Aeroquip Corp.,* 504 F. 2d 1086, 1092 (7 Cir., 1974).

CONCLUSION

We submit that the petition should be denied.

Respectfully submitted,

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IN THE
Supreme Court of the United States
OCTOBER TERM, 1975

NO. 75-1658

WESTWOOD CHEMICAL, INC. et al.,
Petitioners,

v.

PPG INDUSTRIES, INC.,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

REPLY TO BRIEF FOR RESPONDENT IN OPPOSITION

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NO. 75-1658

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ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

REPLY TO BRIEF FOR RESPONDENT IN OPPOSITION

INTRODUCTION

Contrary to the contention of Respondent, the petition in this case does present a question within the certiorari jurisdiction exercised by this Court. For the reasons stated herein, the purported interpretations of the Courts below of this Court's decisions in Lear, Inc. v. Adkins, 395 U.S. 653 (1969) and Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, et al, 402 U.S. 313 (1971) are not only erroneous but create conflicts of major importance of rights under patent licensing agreement. The petition is therefore within Rule 19 calling for review by this Court for special and important reasons; to wit, to clarify the scope of the Lear doctrine with respect to a factual setting, such as here, which is clearly distinguishable from that of the facts prompting the decision in Lear.

It should be noted that a substantial portion of Respondent's "Reasons for Denying the Writ" constitutes the reassertion of its argument before the Court of Appeals of its own appeal from that portion of the judgment of the District Court favoring petitioner. See Respondent's Brief in Opposition, at 6-7. Since Respondent failed to file its own Petition from the judgment of the Court of Appeals affirming the District Court and rejecting the same arguments, they are clearly inappropriate here. In fact, the only questions of concern before this Court arise from error in rejection of the cross-appeal of petitioner in the Court of Appeals involving the elements which distinguish this license agreement from the one in Lear v. Adkins, supra; (1) the existence of valid and enforceable foreign patents which constitute sufficient consideration for the license agreement notwithstanding

the recently adjudicated invalidity of the two American patents, and (2) the existence of an unqualified cancellation clause which permitted the licensee to unilaterally cancel the agreement and continue to exercise the patent rights if it felt that the patents were no longer valid, but of which the Respondent to this day has not availed itself.

I.

<u>To satisfy the "strong federal policy" referred to in Lear, the cancellation clause in this Agreement must be exercised before a challenge of the validity of the patents therein can be had.</u>

Respondent's analysis of <u>Lear</u> is far too superficial. This Court's reference to the "muzzled" licensee in <u>Lear</u> must be viewed with respect to the facts of that case. In <u>Lear</u>,

the licensee had only two choices under the license agreement: (1) to continue using the patent and paying royalties therefore under the license agreement <u>without</u> regard to such patent's validity, or (2) to cancel the agreement and forever cease using the subject matter of the patent, such restrictive cancellation right effectively eliminating any possible challenge of the patent's validity. This Court recognized that Lear (the licensee) was "muzzled" since continued use of the patent claims after cancellation, even if in fact invalid, would subject <u>Lear</u> to an injunction which would put it out of business. The only alternative for this Court was the abrogation of the doctrine of licensee estoppel to correct the inequities created by a license agreement which does not permit an unqualified cancellation, which, as noted by this Court, squelched the incentive of the party most interested in

challenging the patent's validity.

These inequities are clearly absent in the present case. Under the Agreement, Respondent was free to cancel the license and continue using the patents subject only to potential liability as an infringer. And, consistent with the Lear policy, when sued for infringement, Respondent was free to challenge the validity of the once licensed patents while continuing to utilize the patent claims. To hold otherwise, and allow Respondent to challenge the patents' validity without cancellation of the Agreement simply reverses the roles in imposing the inequities on the licensor.[1] This Court could not have intended

[1] For example, under the decisions of the Third and Sixth Circuits as they now construe Lear; one can take a freely cancellable license with no intention of paying royalties, then before or after any payment is due, file a declaratory judgment to contest validity,

through Lear to squelch the development of useful arts and science.

Respondent's reference to Product Engineering v. Barnes, 424 F.2d 42 (10th Cir. 1970) is misplaced. In Barnes, the court merely held that a state court entertaining a contract action based on a patent license may not be deprived of jurisdiction merely on the filing of an action for declaration of patent invalidity in the federal court. The federal suit was held to be properly dismissed. There is no evidence whether or not the license in

knowing full well that his case will not be heard for a period of years because of crowded court dockets and the delay and burdens that a large corporation with almost unlimited finances can impose on the small patentee. The licensee keeps its license so, if it finally is determined that the patent is valid, he merely pays up back royalties at the low rate, and if it is invalid, he's home free. If in the meantime litigation with others was involved, he's hedged his position.

that case was cancellable as drawn, or if in fact the licensee attempted to cancel the license prior to trial.

Respondent's reliance on Crane v. Aeroquip Corp., 504 F.2d 1086 (7th Cir. 1974) is also unwarranted. That case doesn't even involve the cancellation of the license agreement by the licensee, or the right to cancel by either party. Instead, the licensor tried to cancel the agreement because of the licensee's failure to pay royalties on a modified structure that didn't even come within the claims of the licensed patent. The court merely held that these facts were not sufficient to warrant cancellation by the licensor.

Finally, Respondent's reliance on American Sterilizer Co. v. Sybron Co., 526 F.2d 542 (1975) is clearly misplaced. As was pointed out in the petition (see Petition, pp. 32-33), the Third Circuit regretfully misinterpreted

Lear factually to have involved an effectual cancellation clause. Had that been true, Lear would never have reached the trial court. It is therefore clear that the cancellation clause here in issue does constitute a basis of distinction between Lear and the present case.

II.

The foreign patents were in fact relied on by Petitioner in both Courts below.

The existence of the ten (10) foreign patents in this license agreement has always been an integral part of Petitioner's case. These foreign patents are part and parcel of the totality of consideration for the within patent license agreement, obtained through uncoerced, bona fide arms-length bargaining between the Petitioner and the Respondent. Specific reference was made to the foreign

patents in testimony by the patentee-petitioner, T.A. TeGrotenhuis, in the District Court. J. App. at 237-238, 74; as well as the District Court in its opinion. See Petition, App. B. 20a. However, the District Court appeared to avoid the foreign patent issue, seemingly because it was without jurisdiction to affect such patents.

Respondent's contention that the foreign patents were "royalty-free" and therefore of no consequence with respect to its liability for royalties under the Agreement is misleading, having been taken out of context. Under Subsections 3.2 and 3.3 of the Agreement, petitioner granted to Respondent and to Respondent's customers a non-exclusive, royalty-free immunity from suit for infringement under the foreign patents of licensed products <u>manufactured in the United States</u> pursuant to the license and <u>on which royalty is payable to Petitioner</u>.

(J. App. 259). Under Subsection 4.1 of the Agreement, a royalty is payable on the net or equivalent net sales of all primary products which are covered by a claim(s) of an unexpired, licensed patent. (J. App. 260). Under the Agreement, Respondent and its customers are given immunity from infringement suits under the foreign patents in consideration of which Respondent as licensee agreed to pay the royalty specified in Subsection 4.1. Thus, Respondent's assertion that such products sold in foreign countries are completely royalty-free, (Respondent's Brief in Opposition to Petition, at 8), is deceiving. Respondent has and still receives benefits under the Agreement, namely, freedom from infringement suits in foreign countries for itself and its customers.[2]

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[2] Without such immunity, Respondent's customers having, for example, a motor vehicle with a

It then follows that despite the American patents being declared invalid, the utilization of the claims thereof to manufacture goods for which immunity was granted under foreign patents is itself a sufficient and valuable consideration to support the specified royalty obligation until the license agreement is cancelled.

Respondent's further contention that it cannot be held liable for royalties under the Agreement on the basis of the foreign patents since no evidence was adduced below to show that Respondent ever used such foreign patents is wholly without merit. It is a fundamental tenet of patent and contract laws that the thing bargained for by Respondent in this

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fiber glass body would be infringing the three Canadian patents of petitioner (J. App. 253, 255) by use of such in Canada. Perhaps that is why Respondent throughout this litigation has avoided the simple expedient of unqualified license cancellation.

license agreement is the right to use the patents, and not the actual use of the patents. Fear of foreign infringement suits could well be the motive to not cancel the Agreement of Respondent to the unfair detriment of Petitioner.

As cited by Respondent, (Brief in Opposition, p. 9), Beckman Instruments, Inc. v. Technical Development Corporation, 433 F.2d 55 (7th Cir. 1970) is a case quite similar in principle to that here. The court, in Beckman said:

> "We assume, of course, that if the '305 patent is shown to be invalid, it cannot be the basis for royalties, but does not render the entire licensing agreement an improper attempt to use patent leverage to extend the scope of the patent monopoly." 433 F.2d at 62.

This statement supports Petitioner's position when viewed in context, and not Respondent's contention. By implication, the Beckman court is saying that royalties can no longer be

collected for goods manufactured and/or sold under an invalid patent, but can be collected under the contract where other valid patents continue to provide sufficient consideration therefore.

III.

The invalidity of the American patents '378 and '566 was not conceded by Petitioner in the District Court.

Contrary to Respondent's contention (Respondent's Brief in Opposition, p. 5), Petitioner did not admit in the District Court that the '378 and '566 patents were dead in view of the prior decisions stated in Respondent's Brief. In fact, at pages 108-110 of the Judicial Appendix, Petitioner made it clear that the determination of the validity of the '378 and '566 patents should be held

in abeyance as a collateral issue. As stated in the Petition, Petitioner withdrew from its Notice of Cross-Appeal from the District Court's holding of invalidity of the unadjudicated claims of the two United States patents solely to simplify issues and provide a date for eviction from all claims of such United States patents. At the very least, therefore, until the judgment of the instant District Court finally declaring all claims of the American patents invalid, the doctrine of eviction should entitle Petitioner to a royalty to the date of the District Court judgment on the American Patent claims. The mistaken holding of the Court below that Lear supersedes the doctrine of eviction exemplified by Drackett Chem. Co. v. Chamberlain Co., 63 F.2d 853 (1933) where there is no attempt to cancel the agreement and cancellation could have been completely effectual at any time by

licensee should be overruled. In this connection, the Sixth Circuit itself has held in Troxel Mfg. Co. v. Schwinn Bicycle Co., 465 F.2d 1253, 1259 (1972):

> "We hold that Lear did not overrule Drackett Chem. Co. v. Chamberlain Co., 63 F.2d 853 (6th Cir. 1933), and that the rationale of Drackett remains the law of this Circuit except insofar as it expresses the licensee estoppel doctrine."

CONCLUSION

For the reasons above stated, we submit that the petition should be allowed.

Respectfully submitted,

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